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中國綠島科技有限公司

CHINA LUDAO TECHNOLOGY COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)



PLACING AND PUBLIC OFFER

Sponsor, Bookrunner and Lead Manager



安信國際
ESSENCE INTERNATIONAL

Financial Adviser



Donvex
富域資本
Donvex Capital Limited
富域資本有限公司

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED PLACING AND PUBLIC OFFER

Number of Offer Shares	: 100,000,000 Shares (subject to the Offer Size Adjustment Option)
Number of Placing Shares	: 90,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)
Number of Public Offer Shares	: 10,000,000 Shares (subject to reallocation)
Offer Price	: Not more than HK\$0.89 per Offer Share (payable in full on application and subject to refund, plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%) and expected to be not less than HK\$0.72 per Offer Share
Nominal value	: HK\$0.01 per Share
Stock code	: 2023

Sponsor, Bookrunner and Lead Manager



Financial Adviser



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement between the Lead Manager and the Company on or before Friday, 4 October 2013 or such later time as may be agreed between the parties, but in any event, no later than 6:00 p.m. (Hong Kong time) on Tuesday, 8 October 2013. If, for any reason, the Lead Manager and the Company are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Tuesday, 8 October 2013, the Share Offer will not become unconditional and will lapse immediately. Investors applying for the Offer Shares must pay the maximum Offer Price of HK\$0.89 per Offer Share together with brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%. The Lead Manager may, with the consent of the Company, reduce the indicative maximum Offer Price at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notice of the reduction in the indicative Offer Price range will be published in *The Standard* (in English) and the *Hong Kong Economic Journal* (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offer. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.ludaocn.com.

Pursuant to the force majeure provisions contained in the Public Offer Underwriting Agreement in respect of the Public Offer, the Lead Manager has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Public Offer Underwriter under the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be Friday, 11 October 2013). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

Prospective investors of the Offer Shares should note that the Underwriter are entitled to terminate their obligations under the Underwriting Agreements by notice in writing to be given by the Lead Manager upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus or the Application Forms may not be used for the purpose of, and does not (and is not intended to) constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus or the Application Forms and the offering and sales of the Offer Shares in other jurisdictions may be restricted by law and therefore persons who possess this prospectus or any of the Application Forms should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities law.

30 September 2013

EXPECTED TIMETABLE

The Company will issue an announcement in Hong Kong to be published in The Standard (in English) and Hong Kong Economic Journal (in Chinese) if there is any change in the following expected timetable of the Share Offer.

2013⁽¹⁾

Application lists of the Public Offer open⁽²⁾ 11:45 a.m. on Friday, 4 October

Latest time to lodge **WHITE** and **YELLOW**

Application Forms⁽²⁾ 12:00 noon on Friday, 4 October

Latest time to give **electronic application instructions**

to HKSCC via CCASS⁽³⁾ 12:00 noon on Friday, 4 October

Application lists of the Public Offer close⁽²⁾ 12:00 noon on Friday, 4 October

Price Determination Date⁽⁴⁾ on or about Friday, 4 October

Announcement of:

- (i) the final Offer Price;
- (ii) the indication of the level of interest in the Placing;
- (iii) the level of applications under the Public Offer; and
- (iv) the basis of allotment of the Public Offer Shares and the number of Offer Shares, if any, reallocated between the Placing and the Public Offer to be published in *The Standard* (in English) and *Hong Kong Economic Journal* (in Chinese), the website of the Company at www.ludaocn.com and the website of the Stock Exchange at www.hkexnews.hk Thursday, 10 October

Results of allocation in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to apply for the Public Offer Shares — 10. Publication of results" in this prospectus) Thursday, 10 October

EXPECTED TIMETABLE

2013⁽¹⁾

Results of allocations in the Public Offer will be available
at www.tricor.com.hk/ipo/result with a “search by
ID Number/Business Registration Number” function Thursday, 10 October

Despatch/collection of refund cheques in respect of
wholly successful (if applicable) and wholly or
partially unsuccessful applications under the
Public Offer^{(5) & (7)} on or before Thursday, 10 October

Despatch/collection of the Share certificates of the
Offer Shares or deposit of certificates of the Offer Shares
into CCASS in respect of wholly or partially successfully
applications pursuant to the Public Offer^{(5), (6) & (7)} on or before Thursday, 10 October

Dealings in Shares on the Stock Exchange expected to
commence at 09:00 a.m. on Friday, 11 October

Notes:

- (1) All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 October 2013, the application lists will not open on that day. Further information is set out in the section headed “How to apply for the Public Offer Shares — 9. Effect of bad weather conditions on the opening of the application lists” in this prospectus. If the application lists do not open and close on Friday, 4 October 2013, the dates mentioned in this section headed “Expected timetable” may be affected. A press announcement will be made by the Company in such event.
- (3) Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the section headed “How to apply for the Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (4) The Price Determination Date is expected to be on or about Friday, 4 October 2013, and in any event no later than 6:00 p.m. on Tuesday, 8 October 2013. If, for any reason, the Offer Price is not agreed on or before 6:00 p.m. on Tuesday, 8 October 2013, the Share Offer (including the Public Offer) will not proceed and will lapse.
- (5) Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application. All refunds will be paid by a cheque crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first named applicant on your Application Form. Part of your Hong Kong identity card number/passport number or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

EXPECTED TIMETABLE

- (6) Share certificates for the Public Offer Shares will only become valid certificates of title provided that (i) the Share Offer has become unconditional in all respects; and (ii) the Underwriting Agreements have not been terminated in accordance with their terms before 8:00 a.m. on the Listing Date, which is expected to be Friday, 11 October 2013. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk. If the Share Offer does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Company will make an announcement as soon as possible.
- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have indicated in their applications that they wish to collect any refund cheques and Share certificates in person, may do so from the Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 10 October 2013 or such other date as notified by us in the newspaper. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Tricor Investor Services Limited at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques, if any, in person but may not elect to collect their Share certificates which will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applications are the same as those for **WHITE** Application Form applicants. Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for the Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus for details. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant applications. Further information is set out in the paragraph headed "How to apply for the Public Offer Shares — 13. Despatch/collection of share certificates and refund monies" in this prospectus.

You should read carefully the sections headed "Structure of the Share Offer" and "How to Apply for the Public Offer Shares" in this prospectus for details relating to the structure of the Share Offer and how to apply for the Public Offer Shares.

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IMPORTANT NOTICE TO INVESTOR

This prospectus is issued by the Company solely in connection with the Public Offer and the Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy any other security of the Company in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Public Offer Shares, or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for the purposes of a public offering and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Public Offer is made solely on the basis of the information contained and the representations made in this prospectus and the Application Forms.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms.

Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorised by the Company, the Bookrunner, the Lead Manager, the Sponsor, any of their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read such section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading manufacturer of aerosol products in the PRC. According to the CRI Report, we have been among the top five aerosol product manufacturers in the PRC since 2010 in terms of production volume. During the Track Record Period, we were appointed as a standing member of the Aerosol Committee of China Packaging Federation* (中國包裝聯合會氣霧劑專業委員會). We have been a co-drafter of several government-issued national standards in relation to the manufacturing of 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 CMS basis to overseas markets and on OBM basis in the PRC market. 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 business models

We started our business as a CMS manufacturer of the above-mentioned products for outsourcing agents of overseas brand owners and export and trading companies, which export our products to overseas countries. Up to the Latest Practicable Date, CMS manufacturing still constituted the major part of our business. Depending on the arrangements between us and the relevant CMS customer, some CMS customers will provide product formulas to us for production of CMS products while some CMS customers will require us to develop product formulas based on their requirements and specifications.

Since 2008, we commenced our OBM business by offering products under our own brand names of “Green Island”, “Ludao” (“綠島”), “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”), mainly through a network of Distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC. During the Track Record Period, we also sold our OBM products to our Referred Customers and Direct Customers, which will incur the potential risk of disturbing our OBM sales distribution network. Therefore, under the recommendation of our internal control adviser, KL CPA Limited, since January 2013, we require all our OBM customers to enter into binding distribution agreements with us, before we sell any OBM product to them.

Though our OBM business model represented a relatively small part of our business during the Track Record Period, it achieved significant growth in 2012.

The following table sets forth the breakdown of our revenue by CMS and OBM sales during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
CMS products	138,686	91.13%	196,044	92.18%	190,640	83.30%	36,734	80.93%	44,599	82.07%
OBM products	13,503	8.87%	16,632	7.82%	38,212	16.70%	8,658	19.07%	9,744	17.93%
Total	<u>152,189</u>	<u>100.00%</u>	<u>212,676</u>	<u>100.00%</u>	<u>228,852</u>	<u>100.00%</u>	<u>45,392</u>	<u>100.00%</u>	<u>54,343</u>	<u>100.00%</u>

SUMMARY

The table below sets forth the breakdown of our cost of sales by CMS and OBM sales during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000 (Unaudited)	% of total cost of sales	RMB'000	% of total cost of sales
CMS products	106,494	91.43%	150,803	92.35%	146,410	84.35%	29,609	83.62%	34,601	83.15%
OBM products	9,985	8.57%	12,489	7.65%	27,164	15.65%	5,801	16.38%	7,013	16.85%
Total	<u>116,479</u>	<u>100.00%</u>	<u>163,292</u>	<u>100.00%</u>	<u>173,574</u>	<u>100.00%</u>	<u>35,410</u>	<u>100.00%</u>	<u>41,614</u>	<u>100.00%</u>

The following table sets forth the breakdown of our revenue by product categories during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (Unaudited)	% of revenue	RMB'000	% of revenue
Household and auto care products	97,257	63.90%	121,596	57.17%	110,119	48.12%	21,785	47.99%	25,745	47.38%
Air-fresheners	33,434	21.97%	62,224	29.26%	77,223	33.74%	15,388	33.90%	16,179	29.77%
Personal care products	16,631	10.93%	22,878	10.76%	27,583	12.05%	3,526	7.77%	6,218	11.44%
Insecticides	4,867	3.20%	5,978	2.81%	13,927	6.09%	4,693	10.34%	6,201	11.41%
Total	<u>152,189</u>	<u>100.00%</u>	<u>212,676</u>	<u>100.00%</u>	<u>228,852</u>	<u>100.00%</u>	<u>45,392</u>	<u>100.00%</u>	<u>54,343</u>	<u>100.00%</u>

For further details, please refer to the section headed “Business — Our Products” of this prospectus.

Our production facilities

Our production facilities are located in the Feng Keng Production Plant. As at the Latest Practicable Date, we had ten production lines for aerosol products and one production line for non-aerosol products. If the demand for our aerosol products increases, we have to increase the working hours and manpower so as to increase the annual production capacity of aerosol products correspondingly.

To meet the increasing demand for our products, we plan to construct a new production plant in Sanmen County to increase our annual production capacity to approximately 200 million cans of aerosol products. The estimated cost of this project is approximately HK\$134.10 million (equivalent to approximately RMB107.28 million), which is to be conducted in three phases and financed through (i) bank borrowing of approximately HK\$36.00 million (equivalent to approximately RMB28.80 million); (ii) our internally generated working capital for the next three years of approximately HK\$65.43 million (equivalent to approximately RMB52.34 million); and (iii) proceeds of approximately HK\$32.67 million (equivalent to approximately RMB26.14 million) from the Share Offer. For further details, please refer to the section headed “Business — Business Strategies — We plan to further develop our OBM business” and “Future Plans and Use of Proceeds” of this prospectus.

Raw materials and suppliers

The major raw materials for manufacturing the content of our aerosol products are butane gas, flavors and fragrances, polypropylene, polyethylene and alcohol. The raw materials for packaging our aerosol products are mainly aerosol cans, over caps, valves and paper-boxes. Costs for purchase of aerosol cans represent a major part of our cost of sales, which accounted for approximately 60.66%, 56.97%, 53.45% and 44.79% of our cost of sale for the three years ended 31 December 2010, 2011,

SUMMARY

2012 and for the three months ended 31 March 2013 respectively. To prevent shortage in supply of raw materials, we generally maintain multiple suppliers at the same time in respect of each kind of major raw materials.

Customers

CMS customers

During the Track Record Period, our major CMS customers included outsourcing agent companies of overseas brand owners and export and trading companies, which export our CMS products to overseas countries.

Our largest CMS customer in the Track Record Period, Fayeshine, is an outsourcing agent for US Company A (later US Company B), which itself is both a brand owner and an agent for other brand owners. Our second largest CMS customer for the two years ended 31 December 2011 and 2012 was Ningbo Hiking, which purchased our CMS products and in turn resold the products mainly to Fayeshine and other overseas customers. We relied heavily on Fayeshine and Ningbo Hiking, and in substance Fayeshine itself, for a substantial part of our revenue for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 and the purchase of our products by Fayeshine, directly from us and through Ningbo Hiking together accounted for approximately 75.75%, 73.52%, 53.47% and 50.02% of our revenue respectively. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our top five customers accounted for approximately 84.64%, 83.59%, 75.52% and 72.51% of our revenue respectively. For each of the three years ended 31 December 2010, 2011 and 2012, our top five customers comprised 4 CMS customers and 1 OBM customer, Yiwu Weiwei, a Connected Person to our Group.

In view of our heavy reliance on our sales to US Company B, we have been looking for new markets and new customers. As a result of which, revenue contributed by sales to US Company B reduced from approximately 75.75% of the total revenue for the year ended 31 December 2010 to approximately 73.52% and approximately 53.47% of the total revenue for the two years ended 31 December 2011 and 2012 respectively.

Further, in October 2012, we entered into Agreement C, with a new CMS customer — AraGon, a trading company, for the sale of two kinds of mosquito sprays with different ingredients to AraGon up to 50 million cans of our mosquito sprays. However, under Agreement C, AraGon is not obligated to place any purchase order for any contract sum on us. We have obtained the certificate for pesticide registration for one kind of mosquito sprays covering 20 million cans of mosquito sprays on 25 April 2013 while we have not obtained the certificate for pesticide registration for another kind of mosquito sprays. As at the Latest Practicable Date, our sale to AraGon under Agreement C amounted to US\$134,000 and the sales order had been fully delivered and completed and we received the balance of the contract price on 26 August 2013.

The following table sets forth the summary of key terms in the respective agreements with our CMS customers which were in force as at the Latest Practicable Date:

	<u>Minimum purchase commitment</u>	<u>Pricing</u>	<u>Duration</u>	<u>Default and Penalties</u>
Agreement B with US Company B	A minimum amount of 40 million units	Most favoured customer status; prices remain fixed for six months from the date of agreement subject to negotiation	A term of one year and expired in September 2013 and has been renewed up to 10 September 2014	Not applicable
Agreement C with AraGon	No minimum purchase commitment	Initial price subject to review and adjustment every three months	A term of one year and will expire in June 2014	Unless a 1% of contract price per week penalty is paid, we have to pay liquidated damages in the amount of 3% of the relevant contract sum for late delivery. In addition, AraGon is entitled to terminate Agreement C in the event of our default.

SUMMARY

OBM customers

During the Track Record Period, we mainly sold our OBM products to our Distributors, Referred Customers and Direct Customers in the PRC. We set out all major terms and conditions (including geographical distribution territories, pricing policy, sales targets, initial purchase commitments and product return policy, etc) in the distribution agreements entered into between individual Distributors and us, so as to regularise the Distributors' business activities. The number of Distributors for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 was 17, 17, 97 and 263 respectively.

Gross profit and gross profit margin

Our gross profit remained relatively stable during the Track Record Period, which were approximately RMB35.71 million, RMB49.38 million, RMB55.28 million and RMB12.73 million, representing approximately 23.46%, 23.22%, 24.15% and 23.42% of the total revenue for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively.

Our gross profit margin for CMS products remained relatively stable at approximately 23.21%, 23.08%, 23.20% and 22.42% for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively.

Our gross profit margin for OBM products increased from 26.05% for the year ended 31 December 2010 to 28.92% for the year ended 31 December 2012, primarily attributable to an increase in market recognition of the brand of "Green Island", "Ludao" ("綠島") after years of promotion in PRC.

Sales and markets

During the Track Record Period, the US market accounted for the biggest part of our sales. We also sold our products to other markets include Europe and the PRC. The following table sets out the geographical breakdown of our sales during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (Unaudited)	% of revenue	RMB'000	% of revenue
US	124,888	82.06%	169,812	79.85%	150,154	65.61%	30,140	66.40%	35,930	66.12%
PRC	13,503	8.87%	16,632	7.82%	38,212	16.70%	8,658	19.07%	9,744	17.93%
Europe	6,539	4.30%	9,575	4.50%	18,701	8.17%	2,641	5.82%	4,869	8.96%
Other	7,259	4.77%	16,657	7.83%	21,785	9.52%	3,953	8.71%	3,800	6.99%
Total	<u>152,189</u>	<u>100.00%</u>	<u>212,676</u>	<u>100.00%</u>	<u>228,852</u>	<u>100.00%</u>	<u>45,392</u>	<u>100.00%</u>	<u>54,343</u>	<u>100.00%</u>

Pricing Information

In both our respective CMS and OBM pricing policy, we consider a variety of factors including production costs, packaging requirements, the purchase amount and, where we are responsible for developing product formulas, research and development costs. Further, we sell our OBM products at uniform wholesale prices predetermined on an annual basis. To avoid any price war with our Distributors, we prohibit them from selling our OBM products below a minimum price level set by us (usually the same price as our uniform wholesale price or 110% thereof).

SUMMARY

Environmental matters

We are required to comply with the relevant environmental protection laws and regulations promulgated by the PRC government, in particular for the discharge and disposal of industrial waste gas and non-industrial waste from time to time. Our PRC Legal Adviser has confirmed that we had complied with all applicable laws and regulations regarding pollution control during the Track Record Period in all material respects. Our Directors confirmed that there was no accident relating to environmental protection during the Track Record Period.

COMPETITIVE STRENGTHS

We believe that the followings are the key components to our success (i) we have a competitive business scale featuring strong production capacity and further expansion potential to capture business opportunities from the fast growing market; (ii) our products are of reliable quality as a result of our stringent quality control policies; (iii) we maintain stable business relationship with our major CMS customers; (iv) we have an extensive distribution network for our OBM products; (v) our diversified product portfolio allows us to target a broad scope of customers; (vi) our leading role in the development of industry standards for the PRC aerosol industry puts us in an advantageous position; (vii) we are led by an experienced and dedicated management team; and (viii) we have strong research and development abilities.

BUSINESS STRATEGIES

We intend to implement the following principal strategies to expand our business and create values for our Shareholders: (i) further enhancing our production capacity; (ii) further developing our OBM business; (iii) further developing our insecticide products to support our business with AraGon; (iv) improving our research and development ability; and (v) protecting our intellectual property rights.

As OBM sales generally have a higher profit margin, we will put more emphasis and resources on our OBM business while maintaining steady growth and performance of CMS business at the same time. We plan to spend approximately HK\$14.32 million to expand and improve our distribution network and local sales team and to market and promote our brands for our OBM business.

SHAREHOLDER INFORMATION

Immediately following the completion of the Share Offer, without taking into account the Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme, Ludao Investments (wholly-owned by Mr. Yu) and Neland (wholly-owned by China Flavors Group) will be directly interested in 67.575% and 7.425% of the issued share capital of our Company. Please refer to the section headed “History and Development” of this prospectus for further details.

CONNECTED TRANSACTIONS

Continuing Connected Transaction

The transaction contemplated under the Yiwu Weiwei Distribution Agreement constitutes a continuing connected transaction of our Company upon Listing. Please refer to the section headed “Connected Transactions — Non-exempt Continuing Connected Transaction — Yiwu Weiwei Distribution Agreement” in this prospectus for further details.

SUMMARY

Discontinued Connected Transaction

Transactions with Zhejiang Lujia

Ludao (PRC) entered into the Aerosol Can Purchase Agreement with Zhejiang Lujia, pursuant to which Ludao (PRC) agreed to purchase and Zhejiang Lujia agreed to supply aerosol cans from 30 December 2011 to 31 December 2012. The terms of the Aerosol Can Purchase Agreement are similar to the terms (including but not limited to the duration, determination of price, credit period and method of payment) of other purchase agreements between our Group and other independent suppliers for aerosol cans save and except for the settlement arrangement set out therein.

Our Group agreed to prepay a part of purchase money in the sum of RMB30 million to Zhejiang Lujia in consideration of Zhejiang Lujia's agreement to lock the purchase price of aerosol cans for the period from 1 March 2012 to 31 December 2012. As a result of this price-locking arrangement with Zhejiang Lujia, we generated a notional gain of approximately RMB0.96 million, RMB2.91 million, RMB1.02 million and RMB0.25 million respectively for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 under the assumption that all the aerosol cans were purchased from independent third party suppliers during the same period without any price-locking arrangement.

Zhejiang Lujia was founded in the PRC in 2005 by Mr. Yu Afu, who is the father of Mr. Yu and two other independent third parties. As Mr. Yu is a Director and a Controlling Shareholder, Zhejiang Lujia was therefore a Connected Person of our Company and the Aerosol Can Purchase Agreement constituted a connected transaction of the Company. However, Mr. Yu Afu disposed of his interests in Zhejiang Lujia to an Independent Third Party on 27 August 2012 and thus, Zhejiang Lujia ceased to be a Connected Person of our Company. Accordingly, the Aerosol Can Purchase Agreement will no longer constitute a connected transaction under the Listing Rules upon Listing.

Zhejiang Lujia was our largest supplier during the Track Record Period and our Directors expect that Zhejiang Lujia will remain our largest supplier for 2013.

SUMMARY OF FINANCIAL INFORMATION

The following table is a summary of the combined results of our Group for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, which have been extracted from, and should be read in conjunction with, the Accountant's Report set out in Appendix I to this prospectus. Our financial results for the year ending 31 December 2013 will be affected by the non-recurring expenses related to the Listing. The estimated expenses in relation to the Listing (including the underwriting commission) are approximately RMB16.62 million, of which approximately RMB10.84 million and RMB5.78 million will be respectively charged to combined income statement and equity by the Company. The listing-related expenses of approximately RMB6.47 million, amounting to approximately 27.17% of our net profit for the year ended 31 December 2012, had been charged to our profit or loss for the year ended 31 December 2012. The estimated listing-related expense to be charged for the year ending 31 December 2013 is approximately RMB4.37 million. Therefore the financial result of our Group for the year ending 31 December 2013 may be materially and adversely affected.

SUMMARY

Extract of the combined income statements

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	<u>152,189</u>	<u>212,676</u>	<u>228,852</u>	<u>45,392</u>	<u>54,343</u>
Gross profit	<u>35,710</u>	<u>49,384</u>	<u>55,278</u>	<u>9,982</u>	<u>12,729</u>
Profit attributable to owners of the Company	<u>16,010</u>	<u>22,512</u>	<u>23,812</u>	<u>2,650</u>	<u>4,350</u>

Extract of the combined balance sheets

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	<u>86,511</u>	<u>145,425</u>	<u>160,282</u>	<u>145,365</u>
Total assets	<u>131,614</u>	<u>192,077</u>	<u>209,362</u>	<u>200,306</u>
Current liabilities	<u>83,377</u>	<u>120,849</u>	<u>116,400</u>	<u>103,025</u>

Net trade receivables

Our net trade receivables amounted to approximately RMB6.81 million, RMB36.44 million, RMB45.03 million and RMB49.44 million as at 31 December 2010, 2011, 2012 and 31 March 2013. The significant increase in the net trade receivables from approximately RMB6.81 million as at 31 December 2010 to approximately RMB36.44 million as at 31 December 2011 was primarily due to the increase of revenue of approximately RMB30.00 million to Fayeshine.

Financial Ratio

	As at 31 December			As at 31 March
	2010	2011	2012	2013
Current ratio ⁽¹⁾	1.04	1.20	1.38	1.41
Return on equity ⁽²⁾	39.96%	37.69%	29.01%	N/A
Gearing ratio ⁽³⁾	101%	102%	72%	60%

Notes:

- (1) Current ratio is calculated by dividing the total current assets by the total current liabilities. The current ratio increased during the Track Record Period was mainly due to the increase of our net trade receivables as a result of the increase in the sales of our OBM products.
- (2) Net return on equity equals profit attributable to the owners of our Company for the year divided by the average of the beginning and ending balance of equity attributable to the owners of the Company for the year. As such, return on equity for the three months ended 31 March 2013 was incomparable to that for the three years ended 31 December 2010, 2011 and 2012. The decrease of return on equity was mainly due to the continuous increase in equity as our Company did not declare any dividend during the Track Record Period.

SUMMARY

- (3) Gearing ratio is calculated by dividing total debt by the total equity. The decrease of gearing ratio was mainly due to our Company's improving business performance and better cashflow position, therefore less reliance was made on notes payable by us in 2012.

Our unaudited performance for the six months ended 30 June 2013

For the six months ended 30 June 2013, we recorded CMS revenue of approximately RMB76.79 million as compared to RMB82.59 million for the same period in 2012, represented a decrease of approximately 7.02%. The decrease in CMS revenue was due to the decrease in sales of our household and auto care products. The decrease in sales of our household and auto care products was due to the increase in our average selling price, which had a negative impact on our CMS customer's demand.

OBM revenue increased from RMB22.75 million for the six months ended 30 June 2012 to approximately RMB28.62 million for the six months ended 30 June 2013. The increase represented a growth of 25.80%, which was due to the expansion of our OBM products as evidenced by the increase in the number of Distributors from 97 as at 31 December 2012 to 263 as at 31 March 2013 though 130 of whom were our Referred Customers in the past.

For the three years ended 31 December 2010, 2011 and 2012, Ludao (PRC) was granted the status of High and New Technology Enterprise (高新技術企業) by Zhejiang Provincial Science and Technology Department* (浙江省科學技術廳), Zhejiang Provincial Finance Department* (浙江省財政廳), Zhejiang Provincial State Administration of Taxation* (浙江省國家稅務局) and Zhejiang Provincial Local Taxation Bureau* (浙江省地方稅務局) with a certificate dated 5 November 2010 (and it was effective retrospectively as of 1 January 2010). As such, we were entitled to a preferential income tax rate of 15% instead of a statutory rate of 25% during the three years ended 31 December 2010, 2011 and 2012. However, such status of High and New Technology Enterprise will expire in November 2013. Thus, unless our application for renewal of such status for the year ending 31 December 2013 (which is under process by the relevant authorities) succeeds, we will be subject to the income tax rate of 25%, which will affect the results of operations in 2013.

No Material Adverse Change

Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 March 2013, and there has been no event since 31 March 2013 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

Sensitivity Analysis

Assuming all other factors were to remain unchanged, the following sensitivity analysis illustrates the impact of hypothetical fluctuations (i.e. the maximum range of percentage during the Track Record Period) in the (i) exchange rate (RMB against US\$); (ii) labour cost; and (iii) price of aerosol can and (iv) price of butane gas on our net profit for the three years ended 31 December 2010, 2011 and 2012.

Hypothetical fluctuations

	Year ended 31 December					
	2010		2011		2012	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(i) Change in exchange rate (RMB against US\$)	-6.0%	+6.0%	-6.0%	+6.0%	-6.0%	+6.0%
	1,634	(1,634)	1,744	(1,744)	1,448	(1,448)
(ii) Change in labour cost	-15.0%	+15.0%	-15.0%	+15.0%	-15.0%	+15.0%
	695	(695)	1,082	(1,082)	1,654	(1,654)
(iii) Change in price of aerosol can	-7.5%	+7.5%	-7.5%	+7.5%	-7.5%	+7.5%
	4,504	(4,504)	5,930	(5,930)	5,914	(5,914)
(iv) Change in price of butane gas	-12.0%	+12.0%	-12.0%	+12.0%	-12.0%	+12.0%
	1,044	(1,044)	1,563	(1,563)	1,580	(1,580)
(v) Aggregate effect of (i), (ii), (iii) and (iv)	7,877	(7,877)	10,319	(10,319)	10,596	(10,596)

SUMMARY

USE OF PROCEEDS

The aggregate net proceeds from the Share Offer (before exercising the Offer Size Adjustment Option, after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming an Offer Price of HK\$0.81 per Share, being the mid-point of the stated range of the Offer Price) will be approximately HK\$60.23 million. We currently intend to apply such net proceeds in the following manner:

<u>Approximate amount of proceeds (Approximate percentage of the total estimated net proceeds)</u>	<u>Intended use of proceeds</u>
HK\$32.67 million (54%)	To increase our production capacity by constructing a new production plant upon obtaining the necessary approvals
HK\$14.32 million (24%)	To expand the domestic distribution network of our OBM products in second-tier and third-tier cities in eastern and central China, including Zhejiang, Anhui and Hubei
HK\$7.22 million (12%)	To launch advertising campaigns comprising of television advertising, outdoor advertising and multimedia displays in shopping malls in order to gain widespread market acceptance
HK\$6.02 million (10%)	For working capital and other general corporate purposes

To the extent that our net proceeds are not immediately used for the above purposes, we intend to invest our net proceeds in short-term, interest-bearing debt instruments or bank deposits.

In the event that the Offer Price is set at the high-end and the low-end of the proposed Offer Price range, we will receive net proceeds of approximately HK\$67.99 million and HK\$51.50 million, after deducting related expenses, respectively. We will use the net proceeds based on the percentages disclosed above, regardless of whether our Shares are priced at the high-end or low-end of the proposed Offer Price.

DIVIDEND POLICY

We confirm that no dividend was declared or paid by us during the Track Record Period. As at the Latest Practicable Date, our Directors would not declare any dividends out of its profits in the foreseeable future. We currently do not have any plan to distribute regular dividends immediately after the Listing, although this is subject to change.

NON-COMPLIANT BILL FINANCING

In 2009, we entered into credit agreements with three PRC commercial banks (the “Endorsing Banks”) for issuance of bank acceptance notes as payment for our purchase of raw materials, which were not backed up by real transactions at that time. Such bill financing arrangement did not therefore comply with the terms of the credit agreements and Article 10 of the PRC Negotiable Instruments Law (“Non-Compliant Bill Financing”). As the discount rates of bank acceptance notes are normally lower than the prevailing interest rates for short-term bank loans, to take advantage of these lower interest rates, we used Non-Compliant Bill Financing arrangements to fund a portion of our business operations in 2009.

SUMMARY

The funding for our business operations obtained from the Endorsing Banks through such bill financing arrangements for the year ended 31 December 2009 was estimated to be approximately RMB47.65 million. Based on the then prevailing interest rates of short-term bank loans, and for illustrative purposes only, we estimated that our savings in interest payments from the non-compliant bill financing arrangements amounted to approximately RMB0.78 million for the year ended 31 December 2009. All outstanding amount under the bank acceptance notes involved in such Non-Compliant Bill Financing were fully settled and repaid by the end of 2009 upon the maturity of the non-compliant bills. The internal procedures to process the release and cancellation of the bank notes subsequent to the settlement of the notes was completed in May 2010.

Our PRC Legal Adviser advised that we will not be subject to any criminal, administrative or civil liability or penalty as a result of the Non-Compliant Bill Financing under the relevant current PRC laws, rules or regulations and our activities involved in the Non-Compliant Bill Financing did not constitute any fraud by means of financial bills under the PRC Negotiable Instrument Law or the PRC Criminal Law. Further, the relevant PRC government authorities have confirmed that they will not impose punishment on us in respect of the Non-Compliant Bill Financing, and the Endorsing Banks have confirmed that they will not take any legal action against us.

We have formulated and will implement a series of measures to ensure that the above bill financing arrangements will not occur in the future. We have also engaged independent internal control advisers to assist us to strengthen our internal control system and implement various rectifying measures. For further details, see “Business — Internal Control and Corporate Governance Measures”.

SHARE OFFER STATISTICS

	Based on the Offer Price of HK\$0.72 per Share	Based on the Offer Price of HK\$0.89 per Share
Market capitalisation ⁽¹⁾	HK\$288,000,000	HK\$356,000,000
Unaudited pro forma adjusted net tangible asset value per Share ⁽²⁾	HK\$0.46	HK\$0.50

Notes:

- (1) The calculation of market capitalisation is based on 400,000,000 Shares expected to be in issue immediately upon completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued upon exercise of the Offer Size Adjustment Option or any Shares that may be allotted and issued or repurchased by our Company.
- (2) The unaudited pro forma adjusted net tangible assets value per Share has been arrived at after the adjustments referred to under the paragraph headed “Unaudited pro forma adjusted net tangible assets” in the section headed “Unaudited pro forma financial information” in Appendix II to this prospectus and on the basis of 400,000,000 Shares in issue at the respective Offer Prices of HK\$0.72 and HK\$0.89 per Share immediately following completion of the Share Offer and the Capitalisation Issue.

RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors”. The major risks specifically relating to our business are listed as follows: (i) we rely on our major CMS customers, in substance, US Company B (which was US Company A before) for a significant proportion of our revenue; (ii) our sales are geographically concentrated in the US market; (iii) we are subject to risks in relation to Agreement C, in particular, the Agreement C only lasts for one year which will expire by June 2014, AraGon has no obligation to purchase any mosquito spray from us under Agreement C and even if AraGon purchases mosquito spray from us, the impacts of sales to AraGon is one-off only; (iv) we generally do not enter into long-term agreements with our CMS customers and are thus subject to uncertainty and potential volatility with respect to our revenue from period to period; (v) potential tortious claims from the end users of our products and contractual claims from US Company A and US Company B; (vi) we have limited control over our OBM distribution and resale channels; and (vii) we experienced drastic changes in the number of our Distributors during the Track Record Period.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Agreement A”	a legally-binding agreement which was entered into between us and US Company A in 2009 and expired in 2012
“Agreement B”	a legally-binding agreement which was entered into between us and US Company B in 2012, which was renewed in September 2013
“Agreement C”	refers collectively to two legally-binding agreements entered into between AraGon and us on 11 October 2012, the first addendum dated 28 July 2013 and the second addendum dated 5 August 2013
“Application Form(s)”	WHITE Application Form(s) and YELLOW Application Form(s), or, where the context so requires, any of them to be used in connection with the Public Offer
“Aerosol Can Purchase Agreement”	the aerosol can purchase agreement dated 30 December 2011 entered into between Ludao (PRC) and Zhejiang Lujia and supplemented by a supplemental agreement in February 2012, particulars of which are summarised in the section headed “Connected transactions — Discontinued connected transactions” of this prospectus
“AraGon”	AraGon Net Limited, a company incorporated in Hong Kong, which is a CMS customer of our Group and an Independent Third Party
“Articles of Association” or “Articles”	the articles of association of our Company as amended from time to time
“Associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	has the meaning ascribed to it under the Listing Rules
“BVI”	the British Virgin Islands
“Canton Fair”	the China Import and Export Fair (Canton Fair)* (中國進出口商品交易會(廣交會)), a trade fair held biannually every spring and autumn in the Guangzhou Province of the PRC

DEFINITIONS

“Capitalisation Issue”	the issue of new Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to under the paragraph headed “Written Resolutions of all the Shareholders passed on 16 September 2013” in Appendix V to this prospectus
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as custodian participant(s)
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant(s)”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant
“China Customs”	General Administration of Customs of the People’s Republic of China (中國海關總署)
“China Flavors”	China Flavors and Fragrances Company Limited (中國香精香料有限公司), an exempted company incorporated in the Cayman Islands on 9 March 2005 with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3318), and the sole shareholder of Neland
“CNBS”	National Bureau of Statistics of China (中華人民共和國國家統計局)
“Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Registry”	the Companies Registry of Hong Kong

DEFINITIONS

“Company”	China Ludao Technology Company Limited (中國綠島科技有限 公司) (formerly known as China Ludao Holdings Limited (中國 綠島控股有限公司)), an exempted company incorporated in the Cayman Islands on 25 May 2012 with limited liability
“Connected Person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means Mr. Yu and Ludao Investments
“CRI”	China Research and Intelligence Co., Ltd, an independent market research company based in China
“CRI Report”	the report dated 30 September 2013 prepared by CRI in relation to the PRC aerosol industry
“Deed of Non-competition”	the deed of non-competition undertaking dated 16 September 2013 and executed by the Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed “Relationship with Controlling Shareholders — Non-competition Undertaking” in this prospectus
“Director(s)”	the director(s) of the Company
“Direct Customers”	our OBM customers with whom we have not entered into binding distribution agreements and are different from Referred Customers as Direct Customers were not referred to us by our Distributors
“Distributor(s)”	OBM customer(s) who has/have entered into written distributor agreements with us and purchased or will purchase our OBM products for resale pursuant to the distribution agreement(s)
“ECF” or “Sponsor”	Essence Corporate Finance (Hong Kong) Limited, a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities
“EIS”, “Lead Manager” or “Bookrunner”	Essence International Securities (Hong Kong) Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
“Endorsing Banks”	the three commercial banks in the PRC entered into credit agreements with Ludao (PRC) for issuance of bank acceptance notes as a type of credit facility

DEFINITIONS

“Fayeshine”	Fayeshine D and M Co., Ltd., a company incorporated in Seychelles on 11 January 2007, which is a CMS customer of our Group and an Independent Third Party
“Feng Keng Production Plant”	our production plant located in Feng Keng Industry Park, Sanmen County, Taizhou City, Zhejiang Province, the PRC (中國浙江省台州市三門縣楓坑工業園區)
“Fujian Guan Gai”	Fujian Guan Gai Metal Packaging Limited* (福建冠蓋金屬包裝有限公司), a company incorporated in the PRC on 12 December 2006 with limited liability and an Independent Third Party
“Group”, “we” or “us”	the Company and its subsidiaries at various stages of, before and after the Reorganisation or, where the context so requires, Ludao (BVI), Ludao (HK) and Ludao (PRC) and their respective subsidiaries other than those named herein (if any) prior to the Reorganisation and the term “ Group Company(ies) ” shall be construed accordingly
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Yi Zhou”	Hong Kong Yi Zhou Cosmetics Limited (香港一洲化妝品有限公司), a company incorporated in Hong Kong on 29 May 1998 with limited liability and subsequently dissolved on 6 October 2006
“Housing Fund Authority”	the Sanmen Branch of the Taizhou Housing Provident Fund Management Centre* (台州市住房公積金管理中心三門分中心), the local government authority in charge of housing provident fund in Sanmen County, Taizhou City, Zhejiang Province, the PRC
“IFRSs”	International Financial Reporting Standards
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any member of our Group, our Directors, chief executive and substantial shareholder of our Company and our subsidiaries and their respective Associates

DEFINITIONS

“ISSA/Interclean Amsterdam”	an international trade fair for cleaning professionals organised biennially by ISSA — The Worldwide Cleaning Industry Association and Amsterdam RAI
“Latest Practicable Date”	24 September 2013, being the latest practicable date prior to the publication of this prospectus for ascertaining certain information contained in this prospectus
“Listing”	the listing and commencement of dealings in the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about Friday, 11 October 2013, on which trading of the Shares on the Main Board of the Stock Exchange first commences
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Ludao Investments”	Ludao China Investments Holdings Limited (綠島中國投資控股有限公司), a company incorporated in the BVI on 18 December 2007 with limited liability, which is wholly owned by Mr. Yu and is a Controlling Shareholder of our Company
“Ludao (BVI)”	Ludao Investments Holdings Limited (綠島投資控股有限公司), a company incorporated in the BVI on 18 December 2007 with limited liability, which is owned as to 90.1% by Ludao Investments and 9.9% by Neland, and upon completion of the Reorganisation, a direct wholly-owned subsidiary of our Company
“Ludao (HK)”	Hong Kong Ludao Holdings Limited (香港綠島控股有限公司), a company incorporated in Hong Kong on 6 March 2008 with limited liability, which is wholly owned by Mr. Yu as at the Latest Practicable Date
“Ludao (PRC)”	Zhejiang Ludao Technology Co., Ltd (浙江綠島科技有限公司), (formerly known as Taizhou Ludao Cosmetics Co., Ltd. (台州綠島化妝品有限公司)), a wholly-foreign owned enterprise established in the PRC on 23 August 2002 with limited liability and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
“Mr. Yu”	Mr. Yu Yuerong (虞岳榮), an executive Director and a Controlling Shareholder of our Company
“Mr. Yu Afu”	Mr. Yu Afu (虞阿富), the father of Mr. Yu
“Mrs. Yu”	Ms. Wang Jinfei (王金飛), the spouse of Mr. Yu
“Neland”	Neland Development Limited, a company incorporated in the BVI on 27 September 2007 with limited liability and a wholly owned subsidiary of China Flavors, and upon completion of the Reorganisation, holding 7.425% equity interest in our Company
“New Shares”	the 100,000,000 new Shares to be offered by our Company under the Share Offer
“Ningbo Hiking”	Ningbo Hiking Import and Export Co., Ltd., a company incorporated in the PRC on 8 April 2004 with limited liability, which is a CMS customer of our Group and an Independent Third Party
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) of not more than HK\$0.89 and not less than HK\$0.72 at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer, such price is to be agreed between our Company and the Lead Manager at or before the Price Determination Date
“Offer Shares”	the Public Offer Shares and the Placing Shares
“Offer Size Adjustment Option”	the option to be granted by our Company to the Lead Manager under the Underwriting Agreement to require the Company to issue up to an additional 15,000,000 Shares, representing 15% of the number of the Offer Shares, at the Offer Price, details of which are described in section “Structure of the Share Offer” of this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC

DEFINITIONS

“Placing”	the conditional placing of the Placing Shares by the Placing Underwriter on behalf of our Company for cash at the Offer Price to selected professional, institutional and individual investors, details of which are described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	the 90,000,000 new Shares initially offered by our Company for subscription under the Placing and, where relevant, together with any additional Shares that may be issued by our Company pursuant to any exercise of the Offers Size Adjustment Option, subject to reallocation as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Underwriter”	the underwriter of the Placing Shares listed in the paragraph headed “Placing Underwriter” under the section headed “Underwriting” in this prospectus
“Placing Underwriting Agreement”	the conditional placing underwriting agreement relating to the Placing which is expected to be entered into by, among others, the Lead Manager, the Placing Underwriter, our Company, Mr. Yu and other executive Directors as further described under the paragraph headed “Placing” in the section headed “Underwriting” in this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Legal Adviser”	Zhong Lun Law Firm, legal adviser to the Company as to PRC laws
“Price Determination Agreement”	the agreement to be entered into between our Company and the Lead Manager at or before the Price Determination Date to fix the Offer Price
“Price Determination Date”	the date, expected to be on or before on Friday, 4 October 2013 (or such other time and date as may be agreed between our Company and the Lead Manager), but in any event no later than 6:00 p.m. (Hong Kong time) on Tuesday, 8 October 2013, on which the Offer Price is fixed for the purpose of the Share Offer
“Public Offer”	the conditional offer to the public for subscription of the Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms, as further described in the section headed “Structure of the Share Offer” of this prospectus and the related Application Forms

DEFINITIONS

“Public Offer Shares”	the 10,000,000 new Shares initially offered by our Company for subscription at the Offer Price under the Public Offer, representing 10% of the initial number of Offer Shares, subject to reallocation as described in the section headed “Structure of the Share Offer” in this prospectus
“Public Offer Underwriter”	the underwriter of the Public Offer Shares listed in the paragraph headed “Public Offer Underwriter” under the section headed “Underwriting” in this prospectus
“Public Offer Underwriting Agreement”	the conditional public offer underwriting agreement dated 27 September 2013 relating to the Public Offer and entered into by our Company, the executive Directors, the Controlling Shareholders, the Sponsor and Lead Manager as further described under the paragraph headed “Public Offer” in the section headed “Underwriting” in this prospectus
“Referred Customers”	our OBM customers who were referred to us by our Distributors and had not entered into binding distribution agreements with us
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing and prior to the issue of this prospectus, details of which are described in the paragraph headed “Further information about the Company — Corporate reorganisation” in Appendix V to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the capital of our Company
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 16 September 2013, the principal terms of which are set forth under the paragraph headed “Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Share Swap Agreement”	the sale and purchase agreement dated 16 September 2013 and made between our Company, Ludao Investments and Neland, pursuant to which Ludao Investments and Neland agreed to sell to our Company respectively 100 and 11 shares of US\$1.00 each of Ludao (BVI), representing the entire issued share capital of Ludao (BVI), in consideration of the allotment and issue of 8,109 and 891 Shares credited as fully paid by our Company to Ludao Investments and Neland respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 14 July 2008 and made between Neland, Ludao (BVI), Ludao (PRC) and Mr. Yu, pursuant to which Neland subscribed for 11 new shares in Ludao (BVI)
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three financial years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013
“Underwriter”	the Placing Underwriter and the Public Offer Underwriter
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “US” or “USA”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US Company A”	a company incorporated in the US, which itself was both the owner of a number of brands for aerosol products and an agent for other brand owners in the US prior to its purchase by US Company B in December 2010
“US Company B”	a company incorporated in the US, which purchased all assets and liabilities of US Company A in December 2010 and assumed all rights and obligations of the agreements entered into by US Company A
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“WHITE Application Form(s)”	the form(s) of application for the Public Offer Shares for use by the public who require(s) such Public Offer Shares to be issued in the applicants or the applicants’ own name(s)

DEFINITIONS

“YELLOW Application Form(s)”	the form(s) of application for the Public Offer Shares for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“Yiwu Weiwei”	Yiwu Weiwei Cosmetics Firm (義烏威威化妝品商行), a sole proprietorship owned by Mr. Yu Afu
“Yiwu Weiwei Distribution Agreement”	the distribution agreement dated 16 September 2013 entered into between Ludao (PRC) and Yiwu Weiwei, particulars of which are summarized in the section headed “Connected transactions — Non-exempt continuing connected transaction” of this prospectus
“Zhejiang Lujia”	Zhejiang Lujia Container Co., Ltd (浙江綠伽包裝容器有限公司), a company incorporated in the PRC on 25 July 2005 with limited liability which is owned as to 50% by Fujian Guan Gai and 50% by Mr. Xu Weiping (徐衛平), an Independent Third Party, as at the Latest Practicable Date
“sq.ft.”	square foot (feet)
“sq.m.”	square metre(s)
“%”	per cent.

The English names of the PRC entities, the PRC laws or regulations or the PRC government authorities mentioned in this prospectus and marked with “” are translation or transliteration from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.*

Unless the context requires otherwise, translation of US\$ into HK\$ and RMB into HK\$ is made in this prospectus, for illustration purpose only, at the rates of US\$1.00 = HK\$7.80 and RMB1.00 = HK\$1.25. No representation is made that any amount in US\$, HK\$ or RMB could have been or could be converted at the above rate or at any other rate or at all.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains certain explanations and other terms used in this prospectus in connection with the Group and its business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.

“Actuator (閥門促動器)”	means the device connected with the valve and used to actuate the valve
“Aerosol product”	means a product principally comprising the content (as defined hereunder) kept in an air-tight aerosol can be fitted with a valve; when the product is being used, under the pressure created by the propellant, the content will be sprayed out in the form of a mist, foams, powders or micelles
“CIF”	Cost, Insurance and Freight — seller must pay costs, cargo insurance and freight to bring the goods to the port of destination; however, the buyer is responsible for the import customs clearance and other costs and risks once the goods are on board
“CMS”	means Contract Manufacturing Service, under which the manufacturer manufactures products which are marketed and sold under the customer’s own brand names; depending on the circumstances, the manufacturer may also be responsible for designing the products in accordance with the customer’s requirements or specifications
“Concentrates (劑料)”	means the part of the content excluding the propellant
“Content (內容物)”	means the substance filled in an aerosol can, including the concentrates and the propellant
“Crimp (密封)”	means the process of fitting the valve to the aerosol can
“FOB”	Free On Board, international commercial terms stipulating seller must load the goods on board of the vessel nominated by buyer
“ISO”	the International Organisation for Standardisation, world-wide federation of national standard bodies
“ISO9001:2008”	the certification for an internationally recognised standard for quality management
“ISO14001:2004”	the certification for an internationally recognised standard for environmental management
“OBM”	Original Brand Manufacturing under which the manufacturer develops and owns the design of products which are sold under such manufacturer’s own brand names

GLOSSARY OF TECHNICAL TERMS

“OHSAS18001:2007”	an international occupational health and safety management system specification
“Propellant (推進劑)”	the substance kept in the aerosol can in the form of liquid and/or pressurized gas; when the aerosol product is being used, the propellant creates pressure so that the content can be released out through the valve
“Valve (氣霧閥)”	a device fitted to the aerosol can and used to release the content in the can

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect”, “aim”, “intend”, “will”, “may”, “plan”, “consider”, “anticipate”, “seek”, “should”, “would” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- Future development, trends and conditions in our industry;
- Our business prospects;
- The competitive markets for our business and the actions and development of our competitors;
- Financial condition and performance;
- General political and economic conditions;
- Expansion, consolidation or other trends in our industry;
- Our dividend policy;
- Exchange rate fluctuations and developing legal system, in each case pertaining to the industry and markets in which we operate;
- Regulations and restrictions;
- Changes to our expansion plans and use of capital expenditures; and
- Realising the benefits of our business plan and strategies.

Additional factors that could cause actual performance or achievements of our Group to differ materially include, but are not limited to those discussed under the section headed “Risk factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements which reflect the view of our management only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements as at the Latest Practicable Date, where as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

RISK FACTORS

In evaluating an investment in the Offer Shares, potential investors should consider carefully all the information contained in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in our Company before making any investment decision in relation to the Offer Shares. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group.

RISKS RELATING TO OUR BUSINESS

Risk Relating to Our CMS Business

We rely on Fayeshine and Ningbo Hiking, and in substance, US Company A (later US Company B) for a significant portion of our revenue

During the Track Record Period, we relied upon two major CMS customers, namely Fayeshine and Ningbo Hiking, for a substantial part of our revenue. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, sales to Fayeshine accounted for approximately 75.75%, 54.54%, 32.99% and 50.02% of our total revenue, whereas sales to Ningbo Hiking represented approximately 0.08%, 22.05%, 26.92% and nil of our total revenue of the same periods.

Fayeshine, as our largest customer in the Track Record Period, is an outsourcing agent for US Company A (whose assets and liabilities were subsequently acquired by US Company B), which is a popular brand owner of health, beauty and household products in the US. Please refer to the section headed “Business — Customers — Our CMS customers” of this prospectus for the relationship between US Company A and US Company B. Ningbo Hiking, as our second largest customer for the two years ended 31 December 2011 and 2012, is an export agent company in the PRC. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, approximately nil, 86.13%, 76.06% and nil respectively of our products sold to Ningbo Hiking were in turn resold by Ningbo Hiking to Fayeshine, whereas throughout the Track Record Period, our products purchased by Fayeshine either directly from us or from Ningbo Hiking were resold by Fayeshine to US Company A (later to US Company B).

As such, for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, purchase by US Company A (later US Company B) of our products from Fayeshine amounted to approximately 75.75%, 54.54%, 32.99% and 50.02% respectively of our total revenue.

In view of the above, our revenue has been relying heavily upon Fayeshine and Ningbo Hiking, and in substance, US Company A (later US Company B). We cannot assure you that Fayeshine, Ningbo Hiking or US Company B will continue to maintain their current purchase volumes with us, or continue to purchase our products at all in the future. In the event that Fayeshine, Ningbo Hiking or in substance US Company B materially reduces its purchases of our products, or terminate its business relationships with us, our business may be materially and adversely affected.

RISK FACTORS

Our sales are geographically concentrated in the US market

For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our sales to the US market accounted for approximately 82.06%, 79.85%, 65.61% and 66.12% of our total revenue respectively. We anticipate that our sales to the US market will continue to be significant in the future. As such, our revenue is largely affected by the level of demand for our products from our US customers, which is in turn decided by a variety of factors beyond our control, including the global and the US economic environment, general consumer confidence and spending level in the US, etc. If events or circumstances arise in the US that cause a reduced market demand for aerosol products, our business, financial condition and results of operations may be adversely affected.

We are subject to risks in relation to Agreement C

In October 2012, we entered into Agreement C with AraGon. Pursuant to Agreement C, if AraGon places purchase orders on us according to the delivery schedule of Agreement C though AraGon is not contractually bound to, we are expected to supply mosquito sprays to AraGon in a total amount of approximately US\$36.30 million within an one-year period. As the Agreement C only lasts for one year, which will expire by June 2014, the impact of sales to AraGon is one-off only. We cannot guarantee that we will continue to provide mosquito sprays to AraGon or renew Agreement C after expiry of Agreement C. However, as AraGon is by nature a trading company which will sell our products to its customers overseas, the implementation of Agreement C is conditional upon, among other things, AraGon's customers being able to obtain licences from relevant customs authorities for importing our products into their countries and AraGon's customers agreeing to purchase our products from AraGon. These underlying circumstances will affect the smooth implementation of Agreement C. As at the Latest Practicable Date, AraGon cannot ascertain the number of its customers who are expected to purchase our products from AraGon.

Further, under Agreement C, despite the underlying circumstances which would affect AraGon's placing orders on us, if AraGon places purchase orders on us, we will be contractually bound to manufacture and deliver our products to AraGon in the manner as set out in Agreement C. However, whether we will be able to supply products in accordance with Agreement C is affected by various factors such as cost of supplies, transportation delays, disruption of supply and increase in labor cost. Moreover, pursuant to Agreement C, we shall manufacture two types of mosquito sprays for AraGon, and therefore need to obtain from the relevant PRC authorities for two pesticide registration certificates respectively for these two types of mosquito sprays. We have currently obtained one of the said two pesticide registration certificates covering 20 million cans of mosquito sprays; the other one which should cover the remaining 30 million cans of mosquito sprays, however, has not been obtained yet. There is no guarantee that we will be able to obtain the outstanding pesticide registration certificate, and if we cannot obtain it, we will be unable to manufacture the relevant type of mosquito sprays for AraGon under Agreement C.

In view of the above, we cannot give you any assurance as to the smooth implementation of Agreement C. Should the sales of mosquito sprays under Agreement C cannot be carried out smoothly, our sales may not increase to the extent as we have expected from Agreement C. On the other hand, if AraGon has placed purchase orders on us but we fail to deliver products in accordance with the terms of Agreement C, we will have to pay liquidated damages and other damages to AraGon pursuant to Agreement C.

RISK FACTORS

We generally do not enter into long-term agreements with our CMS customers and are thus subject to uncertainty and potential volatility with respect to our revenue from period to period

We generally do not enter into long-term agreements with our CMS customers. As a result, if our CMS customers decide not to place any purchase on us or insist on any new term for purchase of our products which are not acceptable to us, our sales may decline if we are unable to find alternative customers in a timely manner. In such event, our business, financial condition, results of operations and growth prospects may be adversely affected.

Potential tortious claims from the end users of our products and contractual claims from US Company A and US Company B

A large part of our CMS products are exported to the US. If we have built up sufficient contacts in the US or other countries for distribution of our CMS products and our CMS products are found to be below the quality standard of the US or of such other countries or are not of merchantable quality, the end users in the US and other countries may be able to institute tortious action against us for any or all loss and damages or physical injury caused by our products. In such circumstances, we, being the manufacturer or seller of such sub-standard product, may be subject to liabilities for such damage or injury.

Further, in such circumstances, we may also be subject to contractual claims by US Company A and US Company B for damages pursuant to the Agreement A and the Agreement B detailed in the paragraph headed “Business — Customers”.

Risks Relating to Our OBM Business

We have limited control over our OBM distribution and resale channels

For the three years ended 31 December 2010, 2011 and 2012, our OBM distribution and resale channels were principally comprised of Distributors, Referred Customers and Direct Customers.

Our Distributors sell our OBM products to their customers, including end users, wholesalers and retailers. The wholesalers and retailers further resell our OBM products to end users in the market. We have not entered into binding contracts with these wholesalers and retailers under our Distributors, and we rely heavily on our Distributors to regularise such wholesalers or retailers in their resale of our OBM products.

We also sold our products to Referred Customers and Direct Customers, who had not entered into any binding distribution agreements with us. For the three years ended 31 December 2010, 2011 and 2012, sales to Referred Customers represented approximately 55.28%, 58.79% and 33.61% of our total OBM sales respectively, while sales to Direct Customers accounted for approximately 1.02%, 0.03% and 0.02% of our total OBM sales.

As we cannot exercise direct control on the sub-distribution and resale channels of our Distributors, we cannot ensure that our Distributors will always sell our OBM products in a profitable way and in compliance with the terms of our distribution agreements. Nor can we track their sales records and inventory levels at all times. The parties in our distribution and resale channels may be able

RISK FACTORS

to keep a relatively high inventory level of our products out of their own business considerations. Therefore, it may be possible that our OBM sales do not reflect the actual market demands for our products, and as a result, we may misjudge the market situation and the sales trends of our OBM products. As a result, we may not be able to make right decisions in developing our OBM products.

In addition, we have authorized our Distributors and their customers to use our brand names and trademarks for the purpose of selling our products. As we have limited control over the above parties, we may be unable to take measures to effectively avoid our brand name being associated with low quality or inappropriate services provided by them. Any such association may damage our brand names and reputation, and thus materially and adversely affect our OBM business.

Finally, we cannot assure you that we can always effectively prevent cannibalisation within our OBM distribution and resale channels. Our distribution agreements with Distributors contain provisions on the designation of distribution territories and pricing of our products to avoid cannibalisation. However, as the Distributors are external parties, we cannot assure you that they will always comply with such terms in the distribution agreements. For the wholesalers and retailers under our Distributors, and our Direct Customers and Referred Customers, as we had not entered into any binding contracts with them during the Track Record Period, they would not be bound by the designation distribution territories and our pricing policies as set out in the distribution agreements, and therefore there was a higher risk compared with our Distributors that these wholesalers, retailers and our Referred Customers and Direct Customers might go across different distribution territories and sell our products at lower prices to cannibalize each other, and we may not be able to effectively stop them from so doing. Cannibalisation among the parties in our OBM distribution and resale channels could disturb the entire OBM distribution network and thereby materially affect our business and operations.

We experienced drastic changes in the number of our Distributors during the Track Record Period

For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, the number of Distributors were 17, 17, 97 and 263 respectively. For the three years ended 31 December 2010, 2011 and 2012, the number of Distributors whose appointments were terminated or expired was 10, 14 and 3 respectively. Our turnover rate of Distributors for the three years ended 31 December 2010, 2011 and 2012 are approximately 60%, 45% and 3% respectively. Historical sales of those Distributors whose appointments were terminated in 2010, 2011 and 2012 amounted to approximately RMB10.58 million, RMB7.12 million and RMB36,000 respectively. The reasons for the termination of appointment of these Distributors are mostly because of the facts that (i) these Distributors did not meet the sales targets as set out in the distribution agreement; and (ii) a change in product mix of the Distributors which did not align with our product mix. We cannot guarantee that our current Distributors will be able to fulfill the sales targets assigned to them, and if they fail to do so, we may have to terminate our cooperation with them and look for new Distributors. Under such circumstances, we may continue to have high turnover rate of Distributors, which may cause unstable sales channels for our products and therefore adversely affect our OBM business.

In 2012, in line with our business strategy to further develop our OBM business, we had expanded our distribution network to include 83 new Distributors. Further, since January 2013, we have been further expanding our distribution network, and as at the Latest Practicable Date, our number of Distributors had increased to 304. We cannot guarantee that we can co-operate with these new Distributors smoothly, nor can we give assurance that we can successfully operate our distribution

RISK FACTORS

network after its substantial expansion. Problems arising from conducting business with new Distributors or our failure to manage the expanded distribution network and supervise the Distributors may have an adverse effect on the development of our OBM business.

Risk Relating to Production

We rely on single production base in Zhejiang

Currently the Feng Keng Production Plant is our only production base. We are planning to set up a new industrial base, but the construction of which will take years. Before the construction of our new plant is completed, we have to continue to rely solely on our current production facilities in Feng Keng Production Plant for production. In the event that our operation at the current production facilities in Feng Keng Production Plant is disrupted by incidents such as industrial accidents, breakdown of our major machineries or equipment, failure of power supply, outbreak of natural disasters, our production may be materially and adversely affected, and even suspended as a result thereof.

We may encounter unsteady supply or price fluctuation of raw materials

Our gross profit margin is mainly dependent on the selling prices of our products as well as our cost of production. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, the costs of raw materials represented approximately 94.13%, 93.83%, 93.92% and 93.02% of our total cost of sales.

Our most important raw material in our cost structure was aerosol can, which is required for packaging the contents of our aerosol products. The costs for aerosol cans accounted for approximately 60.66%, 56.97%, 53.45% and 44.79% of our cost of sales for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively.

Most aerosol cans in the PRC market are made of tinplate, thus its price is subject to the supply of tinplate price which may vary every quarter. During the Track Record Period, according to the CRI Report, most of the aerosol cans produced in the PRC are tinplate cans. There is not much fluctuation of tinplate price in the PRC from 2011 to 2012. Tinplate generally accounted for more than 50% of the total cost of the aerosol canister. Due to the variance of logistic cost in different parts of PRC, the price difference of tinplate can be up to hundreds of RMB per ton. Moreover, depending on different manufacturing specifications, actual purchase price in Shanghai is approximately 5% to 10% (plus or minus).

Therefore, the price of aerosol can may fluctuate, which is beyond our control. As we negotiate the price with our suppliers on a quarterly basis, we are subject to such price fluctuations.

During the Track Record Period, we had not implemented any specific hedging measures against price fluctuation of aerosol cans.

There is no assurance that we can continue to secure adequate supplies of raw materials at a competitive cost level to meet our production requirements, or in the event of any material rise in the price of any raw or packaging materials, we can pass on the effects of the price fluctuations to our

RISK FACTORS

customers without affecting the demand for our products. Therefore, the revenue and profitability of our business may be adversely affected in the event of unsteady supply or price fluctuation of the raw materials and packaging materials for our production.

We rely on a small number of suppliers for a significant portion of our raw material purchases

We rely on a small number of suppliers for a significant portion of raw materials for our production. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, purchases from our five largest suppliers were approximately RMB65.08 million, RMB97.63 million, RMB113.54 million and RMB24.30 million, which accounted for approximately 55.87%, 59.79%, 65.41% and 58.39% respectively, of our total costs of sales. We cannot assure you that our major suppliers will not give priority or more favourable terms to other customers as they have offered to us, or that they will continue to supply raw materials to us of the same quality, or that they will continue to supply us with raw materials at all. If any of the abovementioned events occur, we may need to find alternative suppliers on similar sale terms and conditions acceptable to us. If we fail to do so in a timely manner, our production may have to be interrupted, our production costs may increase and our business, financial condition, results of operations and growth prospects may therefore be materially and adversely affected.

We rely on a stable supply of labour at reasonable cost

Our production remains highly labour-intensive. As at the Latest Practicable Date, we had a total of 292 employees. There is no guarantee that our supply of labour and labour cost will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increase in demand for our products or smoothly implement our expansion plans. If we are not able to manufacture and deliver our products to our customers as scheduled or if we are unable to implement our expansion plans, our business, financial condition, operations and prospects would be materially and adversely affected. Furthermore, if there is a significant increase in labour cost, the cost of our business operation would increase and our profitability would be adversely affected.

We may be subject to liability in connection with industrial accidents happened during our production process at our production plant

As our production process at our Feng Keng Production Plant inevitably involves the operation of tools, equipment and machinery, industrial accidents resulting in employee injuries or even deaths may occur. There is no assurance that these industrial accidents, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. In such event, we may be liable for personal injury or death and monetary losses suffered by our employees, fines or penalties or other legal liability arisen from violation of applicable PRC laws and regulations. We may also be subject to business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accident. Further, any enhanced safety measure imposed by the PRC government authorities from time to time in the future could have a material adverse effect on the manner in which we conduct our operations, thereby adversely impacting our operations.

RISK FACTORS

Possible shortage of electricity at our Feng Keng Production Plant

Our production process involves consumption of substantial amount of electricity. The costs of electricity incurred by our Group were approximately RMB1.42 million, RMB1.83 million, RMB2.16 million and RMB0.69 million respectively for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013. Considering that there has been a significant increase in the demand for electricity supply in PRC in the recent years, we cannot give assurance that we will always have sufficient electricity supply for our Feng Keng Production Plant.

We have our own diesel generator to generate power supply for maintaining the daily operation of our Feng Keng Production Plant on a contingency basis but the costs of running such generator are substantially higher than obtaining electricity from utility services. Therefore, any prolonged shortage in electricity supply from utility service providers may cause a significant increase in our production costs, or even disruption of our production. Our business and operation will thereby be adversely and materially affected.

Failure to maintain an effective quality control system may result in a loss

The effectiveness and quality of our products are critical to the success of our business. These factors depend significantly on the effectiveness of our quality control system, which in turn, depends on a number of factors, including the quality of the training programmes we offered to our staff, and our ability to ensure that our employees would adhere to our quality control policies and guidelines at all times. Any material failure or deterioration of our quality control system could adversely affect our recognition in the aerosol industry and certifications, which in turn could have a material and adverse effect on our reputation, our business, financial condition and growth prospects.

Other Risks Relating to Our Business

We rely on independent logistic companies and delivery agents

We do not have our own transportation team. During the Track Record Period and up to the Latest Practicable Date, we entered into contracts with independent logistic companies and delivery agents for transportation or delivery of our products to locations designated by our customers. Should the logistic companies and delivery agents fail to comply with the terms of our contracts with them or any regulatory requirements, they may fail to transport or deliver our products to our customers in a timely manner or at all. Upon any failure by our existing logistic companies or delivery agents to discharge their delivery obligations, we may not be able to find other suitable as replacements on a timely basis, and our business, financial performance and operations may thereby be adversely and materially affected.

We may not be able to maintain the increasing trend of our gross profit margin or to maintain our profit margins at the levels we recorded during the Track Record Period

During the Track Record Period, our gross profit margin showed a general growing trend except for a slight fall in 2011. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our gross profit margin was approximately 23.46%, 23.22%, 24.15% and 23.42% respectively.

RISK FACTORS

We cannot assure you that we will be able to maintain the general increasing trend of our gross profit margin or to maintain our gross profit margin at or higher than its historical level during the Track Record Period as the average unit selling price of our products and our raw material prices may be affected by a variety of factors, including changes in the market demand of our products, supply of raw materials, changes in taxation and export policies and various other factors that are beyond our control.

We rely on our key personnel

The success of our Group was to a large extent attributable to the knowledge, skills, experience and dedicated service of our senior management team and key operational staff. Our key management, consisting of nine members, is headed by Mr. Yu, who is the chairman of our Group and is primarily responsible for the overall strategic planning and devising corporate policy on our business operation. Competition for key personnel in our aerosol industry is intense, and sourcing a competent and suitable candidate to replace any member of our key management from a limited pool of candidates may not be easy. While we have established long-term employment relationship with most of these key personnel, we cannot assure you that any of them will continue their service with our Group in the future, or our Group would be able to hire suitable replacements for these key personnel should they choose to terminate their employment with us. Therefore, the loss of services of any of our senior management or key operational staff without timely and appropriate replacement could have an adverse effect on the operations, business and financial performance of our Group.

Credit risk

There may be credit risks associated with our customers. As at 31 December 2010, 2011, 2012 and 31 March 2013, our trade receivables amounted to approximately RMB6.94 million, RMB36.53 million, RMB45.12 million and RMB49.53 million respectively, representing approximately 8.02%, 25.12%, 28.15% and 34.07% of our total current assets as at the respective date.

During the Track Record Period, our credit risk was concentrated on several major customers, particularly on Fayeshine and Ningbo Hiking. As at 31 December 2010, 2011, 2012 and 31 March 2013, our top five trade receivable balances accounted for approximately 70.24%, 97.75%, 64.58% and 69.89% of our gross trade receivable balances. As at 31 December 2010, 2011, 2012 and 31 March 2013, trade receivable balances from Fayeshine accounted for approximately 36.74%, 11.68%, 37.28% and 41.23% of our gross trade receivable balances respectively, while trade receivable balances from Ningbo Hiking accounted for approximately nil, 79.19%, 3.85% and nil of our gross trade receivable balances respectively. Should any of our customers fail to settle the sale proceeds in accordance with their credit terms, our working capital position may be adversely affected. Our receivables may therefore have to be provided for as bad debts or be written off, which will have an adverse effect on our profitability.

We were previously involved in bill financing transactions that were not fully in compliance with the PRC Negotiable Instrument Law

In 2009, we entered into credit agreements with the Endorsing Banks for issuance of bank acceptance notes for payment of our purchases of raw materials from suppliers. We presented our sales and purchase contracts or purchase orders with suppliers to the Endorsing Banks when requesting issuance of bank acceptance notes pursuant to the credit agreements. Such sales and purchase contracts

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or purchase orders were not backed up by underlying transactions as required by the relevant PRC laws and the credit agreements. The total amount of funds obtained from this kind of bill financing arrangement that were used for purposes other than for payment of the purchases from the suppliers in these bill financing transactions amounted to approximately RMB47.65 million for the year ended 31 December 2009. For illustrative purposes, based on the then prevailing interest rates for short-term bank loans for approximately 5.08% for the year ended 31 December 2009, we estimated that our interest expenses incurred and saved from this kind of bill financing arrangement are approximately RMB1.21 million and RMB0.78 million respectively. For further details, please see the section headed “Business — Non-Compliance” of this prospectus. Our PRC Legal Adviser advised us that such bill financing arrangements did not comply with the credit agreements and Article 10 of the PRC Negotiable Instruments Law. Although we have obtained the written confirmation letters from the relevant Endorsing Banks and regulatory authorities, there is no assurance that the relevant regulatory authorities will not penalise us for these bill financing arrangements in the future. Any such penalties may materially and adversely affect our business, financial condition and operations.

Risks in relation to intellectual property rights

The success of our business relies heavily upon our ability to protect our intellectual property rights and the intellectual property rights (mainly product formulas and specifications) of our CMS customers that came to our possession for production of our CMS products. We cannot give assurance that our measures intended to protect the above-mentioned intellectual property rights are sufficient to prevent any possible infringement from third parties, or any possible leakage of confidential information relating to these intellectual property rights by our staff with access to such information.

Therefore, there is no assurance that we will be able to sufficiently protect our intellectual property rights. If our intellectual property rights are infringed by third parties, our business will be materially and adversely affected. If confidential information relating to our CMS customers’ intellectual property rights that came into our possession in the course of the production of our CMS products is being leaked out by our staff, our reputation and business relationship with the relevant CMS customers may suffer material adverse impacts.

Further, as under our CMS business model, we manufacture products bearing the trademark(s) of our customers and in accordance with the product formulas provided by the customers, or on some occasions, we have to develop product formulas for the customers to cater for their specifications and requirements. We cannot assure you that formulas provided by our customers or developed by us based upon our customers’ specifications and the products bearing our customers’ trademark(s) will not infringe any third party’s intellectual property rights, and in case of infringement, we may be subject to claims by the third parties. There is no indemnity provision in the agreement entered into between our CMS customers and us which would entitle us to claim indemnity from our CMS customers in the event of infringement. As advised by our PRC Legal Adviser, if our CMS products are proved to have infringed any third party intellectual property rights in the PRC, we may be required to compensate the owner of the intellectual property right with the actual damages it has suffered as a result of the infringement or a fine for a sum below RMB0.50 million for trademark infringement and a sum between RMB10,000 to RMB1.00 million for patent infringement if actual damages cannot be proved. We confirm that during the Track Record Period, we did not receive any material claim related to any

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alleged intellectual property right infringement against us. Nevertheless, there is no assurance that we will not face such claims in the future. In such event, the business of our CMS customers and our Group could be materially and adversely affected.

We may be unable to secure enough capital to implement our expansion plans in full and to finance our increased working capital requirements

We plan to expand our business in order to capture market opportunities. We expect to expand our production capacity through the construction of a new production plant, acquisition of new production equipment and machinery and technology upgrades in the future. For further details in this respect, please refer to the sections headed “Business — Business Strategies — We plan to enhance our production capacity” and “Future Plans and Use of Proceeds” of this prospectus. Additional capital expenditures may also be required in the future for our increased need for working capital as our operation grows. We anticipate that our capital requirements will be financed primarily by the proceeds from the Share Offer as well as cash from operating and financing activities.

However, the proceeds from the Share Offer and cash from our operating and financing activities may not be sufficient to fund all of our future business plans, in which event we may need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including but not limited to:

- investors’ perceptions on the securities of these companies engaged in the manufacture of aerosol products, as well as any of our future products;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our results of operations, financial condition and cash flows in the future; and
- economic, political and other conditions in the PRC and the rest of the world.

If we are unable to secure adequate financing in a timely manner and on acceptable terms, we may have to scale back our planned capital expenditures, which may adversely affect our ability to achieve our planned growth strategies, and thus have a material adverse effect on our business, financial condition and results of operations.

Failure to implement our business plans

We plan to further develop our business by implementing the business strategies as set out in the section headed of “Business — Business Strategies” in this prospectus. Our plans in relation to the implementation of the business strategies are based upon a series of assumptions such as the absence of material adverse change in the market and the general economic environment in the future. If any of such assumptions transpire to be incorrect, we may not be able to carry out our future plans as scheduled, within budget or at all. In addition, we cannot give assurance that our investments in the business plans and strategies will achieve the results and make profits as we expected.

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In addition, as stated in the paragraphs headed “Business — We plan to enhance our production capacity”, we are applying for the land use rights of a new piece of land located in Sanmen County, Zhejiang Province, the PRC to build a new production plant thereon. However, as confirmed by the Directors and the PRC Legal Adviser, the relevant PRC government authorities will hold a bidding process, and the land use rights of the said piece of land will be transferred to the winner of the bidding. If we fail to bid and obtain the land use right of the relevant piece of land, we may have to delay or even abort our plan to construct the new production plant. As a result thereof, the smooth implementation of business plan may be materially and adversely affected.

The financial results of our Group are expected to be affected by the expenses in relation to the Listing

Our financial results for the year ending 31 December 2013 will be affected by the non-recurring expenses related to the Listing. The estimated expenses in relation to the Listing (including the underwriting commission) are approximately RMB16.62 million, of which approximately RMB10.84 million and RMB5.78 million will be respectively charged to combined income statement and equity by the Company.

The listing-related expenses of approximately RMB6.47 million, amounting to approximately 27.17% of our net profit for the year ended 31 December 2012 had been charged to our profit or loss for the year ended 31 December 2012. The estimated listing-related expense to be charged for the year ending 31 December 2013 is approximately RMB4.37 million. Therefore, the financial result of our Group for the year ending 31 December 2013 may be materially and adversely affected.

Limited insurance coverage

We maintain a range of insurance policies including insurance for our production facilities and equipment in our Feng Keng Production Plant, and mandatory social securities insurance for our employees in accordance with PRC laws and regulations. Details of such insurance are elaborated in the section headed of “Business — Insurance” in this prospectus. On the other hand, as confirmed by our PRC Legal Adviser, the current PRC laws and regulations do not require aerosol product manufacturers to maintain product liability insurance. At present, we do not maintain any product liability insurance for our products.

As a result, we may incur risks outside the coverage of our insurance policies, and even where our losses are caused by risks within the coverage of our insurance, there is no assurance that we will be successful in making claims, or that the proceeds from a successful claim will be adequate to compensate the actual damages suffered or at all. Furthermore, if the premium on our insurance coverage increases significantly in the future, we will either consequently incur more costs in relation to insurance or be unable to obtain insurance coverage at current levels. In addition, there is no guarantee that our products will be free from defects caused by reasons including but not limited to any non-compliance by our employees of our quality management policies or measures. In the event that any of our products are defective and any personal injury or property damage is caused thereby, we may be subject to product liability claims. In such cases, we may have to pay compensation to our customers or end-users for the loss and damage they suffer. In addition, we may thereby incur adverse publicity, which will damage our reputation and affect our business and operations as a whole. Any of the above events may adversely affect our business.

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Our sales are affected by seasonal fluctuations

We confirm that, based upon our past experience, the boom season of our sales is usually season around December and in May and June, and off-season from January to March. For further details, please refer to “Business — Sales and Distribution — Seasonality” of this prospectus. For the three years ended 31 December 2010, 2011 and 2012, our sales in the above-mentioned boom seasons respectively amounted to approximately RMB38.13 million, RMB65.67 million and RMB72.24 million, representing approximately 25.06%, 30.88% and 31.57% of our total revenue of the respective years, whilst sales in the off-seasons respectively amounted to approximately RMB43.13 million, RMB34.91 million and RMB45.39 million, representing approximately 28.34%, 16.41% and 19.83% of our total revenue of the respective years. Our boom season was consistent for the two years ended 31 December 2011 and 2012 save for the year ended 31 December 2010 as a result of loss of certain customers in the second half of the same year.

Due to these seasonal factors, comparison of our sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance. In addition, these seasonal fluctuations may cause our operating results and financial condition to fluctuate from one period to another.

RISKS RELATING TO THE INDUSTRY

We are subject to intense competition

Our CMS sales to export companies and outsourcing agents for overseas brand owners have been, and will continue to be in the foreseeable future, our major source of revenue. The overseas brand-owners and their agents may constantly look into the PRC and the global market for CMS manufacturers who can offer products at more favorable terms than we do. Therefore, we are facing competition from aerosol manufacturers from all around the world. There is no guarantee that we will always be able to successfully compete with these manufacturers; for instance, it is possible that aerosol manufacturers in some undeveloped countries and areas such as the Africa or India may obtain an advantage over us by lower product prices as a result of their less expensive labor costs.

In view of the above, we need to constantly strive to achieve higher product quality and lower prices to retain our customers. Failure to compete with other aerosol manufacturers may cause us to lose such customers, which will materially and adversely affect our business and financial position.

Risk of failure to renew our licences and permits

Under relevant PRC laws and regulations, we are required to hold various licences and permits in order to conduct our business. We are also required to comply with applicable regulations and standards in relation to our production and the quality of our products. Our PRC Legal Adviser advises and our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Compliance” of this prospectus, we had complied with all applicable laws and regulations in the PRC and have obtained all the necessary permits, licences and certificates for our business. However, some of our permits, certificates and licences are subject to renewal on annual or other regular basis and/or need to be renewed in the coming years. Failure to

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renew such licences, permits or certificates may cause temporary or even permanent suspension of our production and disruption of our operations, thus having material adverse effects on our business and financial conditions.

Effect of changes in the PRC environmental laws and regulations

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with all existing relevant PRC environmental protection laws, rules and regulations. However, we cannot give assurance that the PRC government will not impose stricter laws or regulations in relation to environmental protection. If we fail to comply with any change in the relevant laws and regulations, we may be subject to penalties or even suspension or closing down of our business by relevant authorities. Furthermore, compliance with any amended environmental law or regulation may force us to incur significant capital expenditure, which may adversely and materially affect our operation and profitability.

Liabilities in connection with the use of hazardous materials

Our production process involves the use and storage of flammable and/or explosive raw materials such as butane gas or any other environmental or hazardous materials (for instance, plasticizer) or any other chemical compounds, which may cause industrial accident if we do not handle these materials properly. Thus, we cannot assure you that any accident causing explosion, disruption of operation, injuries or death resulting from our negligence or mishandling of these hazardous materials will not happen at our Feng Keng Production Plant. In such event, we may be liable for the loss of life and property, personal injuries, medical expenses suffered by the victims in the accident and we may have to pay fines and penalties for violation of applicable PRC laws and regulations. Furthermore, our Feng Keng Production Plant may be required to halt operation pending investigations from the authorities, which would adversely affect our business operation, reputation and financial performance.

Outbreak of natural or other disasters

The outbreak of natural disasters, wars, terrorist attacks, political unrests and epidemics, or other events beyond our control, could adversely affect the overall business sentiment and the environment in the areas where we operate, especially if such outbreak is inadequately controlled. This would result in a decreased customer demand, a shortage in the supply of labour force as well as raw materials for our production, and even the deterioration of the general economic environment, which would have a material adverse impact on our business.

RISKS RELATING TO CONDUCTING BUSINESS IN PRC

The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and operations

The global capital and credit markets have been experiencing extreme volatility and disruption in the recent periods. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the US mortgage market and the fluctuation in residential real estate market in the US and elsewhere and the financial viability of the European banking and financial system have contributed to unprecedented levels of market volatility. These factors, combined with volatile oil prices, declining

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business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. As a result, consumer demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition and results of operations. If the economic downturn continues, our business operation and financial position may be adversely affected.

Changes in the existing laws and regulations or adoption of additional or stricter laws and regulations on environmental protection in the PRC may cause us to incur significant capital expenditure and we cannot guarantee that we will be able to comply with any such laws and regulations in time

We carry on our business in an industry that is subject to the PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing and construction that may produce environmental wastes to adopt effective measures to control and properly dispose of waste gases, waste water, industrial waste, dust and other environmental waste materials, and require producers discharging waste substances to pay fees for discharges above permitted levels. Failure to comply with such laws or regulations may result in the local environmental protection authorities imposing fines on us. The PRC government (including its provincial level) also has the discretion to suspend or close any facility failing to comply with such laws or regulations. We also cannot guarantee that the PRC government will not change the existing laws or regulations or impose additional or stricter laws or regulations, compliance with which may cause us to incur significant capital expenditure that we may be unable to pass on to our customers through higher prices for our products.

Our business and operations are subject to certain laws and regulations of the PRC

Our business and operations are subject to certain laws and regulations of the PRC. Any breach or non-compliance with these laws and regulations of the PRC may result in the imposition of penalties by the relevant authorities, including the suspension, withdrawal or termination of our business licenses. In addition, should there be any changes in the licensing requirements, such as a requirement to obtain more licenses or more stringent criteria having to be satisfied before certain licenses are granted, the cost to ensure that we comply with these licensing requirements may increase. The withdrawal, suspension or termination of our licenses or permits, or the imposition of any penalties, as a result of any infringement of any regulatory requirements will have an adverse impact on our business and results of operations.

Our business and operations may be materially and adversely affected by any changes in the political, economic and social conditions of the PRC

Our financial condition and prospects are to a significant degree subject to the political, economic and social conditions of the PRC, as all of our assets are located in the PRC and all of the revenue is derived from operations that take place in the PRC. Any changes in the political, economic and social conditions of the PRC may adversely affect our business and viability. The PRC government has undergone various reforms of its economic systems. Such reforms have resulted in economic growth for the PRC in the last three decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. In addition, the scope, application and interpretation of laws relating to such reforms may be uncertain. Other political, economic and social factors may also lead to further refinement or adjustment of the reform measures. This refinement and

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adjustment process may consequently have a material adverse impact on our operations in the PRC or our financial performance. Our results and financial condition may be adversely affected by any changes in the PRC's political, economic and social conditions and by changes in policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system may not be sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations may be influenced by momentary policy changes reflecting domestic political and social changes. Accordingly, the outcome of dispute resolutions may not be consistent or predictable with certainty. In addition, it may also be difficult to enforce judgments and arbitration awards in the PRC, or to obtain enforcement of judgment by a court of another jurisdiction.

Many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There can be no assurance that (i) future changes in legislation or the interpretation will not have an adverse effect upon our business, operations or profitability, and (ii) the PRC authorities will not issue further directives, regulations, clarifications or implementation rules requiring us to obtain further approvals in relation to our business, operations and our proposed Listing.

Foreign exchange considerations

Our revenue and purchases are primarily denominated in RMB and US\$. At present, RMB is not freely convertible to other currencies. Under the current foreign exchange regulations, RMB is convertible without approvals from State Administration of foreign Exchange ("SAFE") only with regard to current account transactions, including trade and service related foreign exchange transactions and payment of dividends to foreign investors, while the foreign exchange transactions in respect of capital account items including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of SAFE. There can be no assurance that the PRC government will not impose more stringent restrictions on the convertibility of RMB, especially relating to foreign exchange transactions.

Fluctuations in exchange rates for RMB and US\$ may adversely affect the value, translated or converted into HK\$, of our net assets, earnings and any declared dividends. We may incur new debt financing which may include foreign currency denominated borrowings. Any adverse fluctuations in exchange rates among these foreign currencies may materially and adversely affect our results of operations. Although we may, from time to time, enter into hedging transactions to mitigate its foreign currency exchange risk exposure, the effectiveness of such hedges may be limited and we may not be able to successfully hedge its exposure.

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The preferential tax treatments our Group currently enjoy may be changed or discontinued, which may adversely affect our profitability

According to applicable PRC laws and regulations, enterprises are generally subject to income tax at a rate of 25%. Pursuant to the Zhe Ke Fa Gao [2010] No. 272 Notice (浙科發高[2010] 272號通知) issued by Zhejiang Provincial Science and Technology Department* (浙江省科學技術廳) in conjunction with other relevant PRC government authorities, Ludao (PRC) is identified as a High and New Technology Enterprise (高新技術企業) and enjoys a reduced tax rate of 15%. There is no assurance that we will continue to enjoy the same preferential tax treatment after November 2013. In the event that the PRC government changes its tax policy of supporting high and new technology enterprises, or Ludao (PRC) ceases to be recognized as a High and New Technology Enterprise (高新技術企業), we may be subject to income tax at a rate of 25%, which may adversely affect our business and the results of our operations.

Fluctuation of RMB may affect value of our dividends (if any) and our financial condition

The value of RMB may fluctuate which is subject to government policy of the PRC. From 1994 to 2005, RMB was pegged to the US\$. The conversion of RMB into foreign currencies in the PRC, including Hong Kong and US\$, was based on exchange rates published by the PBOC. The official exchange rate for the conversion of the RMB to US\$ was in general stable during that period. However, since 2005, RMB has been pegged to a basket of currencies instead of US\$ alone. Since our financial statements are denominated in RMB, the termination of the linked exchange rate between RMB and US\$ has increased the uncertainty of our income and profits. Any unfavorable change in the PRC government's currency policies and conditions of the currency market may have material adverse effect on the value of our dividends, if any, payable in foreign currencies, and also our financial condition.

Distribution and transfer of funds may be subject to restrictions under PRC laws

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in its subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries, especially our principal operating subsidiary in the PRC. Under the PRC laws, dividends from our subsidiary in the PRC may only be paid out of net profit calculated according to PRC accounting principles, which are different in many respects from the HKFRS, and after recovery of accumulated losses and allocations to statutory reserves which are not available for distribution as cash dividends. Distributions by our subsidiary in the PRC to us may be subject to governmental approval and taxation. These requirements and restrictions may affect the ability of our PRC subsidiary in the distribution and payment of dividends and in turn affect our ability to pay dividends to our Shareholders. Any transfer of funds from our Company to our subsidiary in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval of PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. These limitations on the free flow of funds between our Company and our PRC subsidiary could restrict our ability to act in response to changing market conditions in a timely manner. Furthermore, members of our Group may obtain credit facilities from banks in the future which restrict them from paying dividends to their shareholders, which may have an adverse impact on their ability to pay dividends to our Shareholders.

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RISKS RELATING TO THE SHARE OFFER

Liquidity and possible price volatility

Prior to the Share Offer, there has been no public market for any of the Shares. The Offer Price may not be indicative of the price at which the Shares will be traded on the Stock Exchange following completion of the Share Offer. In addition, there can be no guarantee that an active trading market for the Shares will develop or, if it does develop, that it will be sustained following completion of the Share Offer or that the market price of the Shares will not fall below the Offer Price.

The trading price of the Shares can also be subject to significant volatility in response to, among other things, the following factors:

- (1) investors' perception of our Group and our future business plan;
- (2) variation in the operating results of our Group;
- (3) changes to our senior management;
- (4) the depth and liquidity of the market for the Shares; and
- (5) general economic and other factors in our Group's principal markets.

Investors for our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in future

The Offer Price is higher than the net tangible asset value per Share immediately prior to the Share Offer. Therefore, investors of the New Shares will experience an immediate dilution in the pro forma net tangible asset value of HK\$0.50 per Share based on the maximum Offer Price of HK\$0.89 per Share.

We may need to raise additional funds in future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the New Shares.

Investors may experience difficulties in carrying out legal process and enforcing judgments against our Company and our management

We are a company incorporated in the Cayman Islands under the Companies Law with limited liability and the Companies Law differs in some respects from those of Hong Kong or other jurisdictions where our investors may be located. As a result, the remedies available to the minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

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Our Company's corporate affairs are governed by its Memorandum of Association and Articles, the Companies Law and the common law of the Cayman Islands. The rights of the Shareholders to take legal action against our Directors and our Company, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where our investors may be located. In particular, the Cayman Islands has a less developed body of securities laws.

In addition, our Shareholders will not be able to bring actions on the basis of violations of the Listing Rules. Therefore, they must rely on the Stock Exchange to enforce its rules.

Furthermore, the Takeovers Code do not have the force of law and only provide standards of commercial conduct acceptable for takeover and merger transactions and share repurchases in Hong Kong.

As a result of any or all of the above, the Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or major shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions. For further information on the constitution of our Company and the Companies Law, see "Summary of the constitution of the Company and Cayman Islands Company Law" set out in Appendix IV to this prospectus.

Issues of new Shares under the Share Option Scheme will have a dilution effect and may affect our profitability

We have conditionally adopted the Share Option Scheme but no option has been or will be granted thereunder prior to the Listing Date.

Any exercise of the options to be granted under the Share Option Scheme in the future will result in the reduction in the shareholding of the Shareholders in our Company and may result in a dilution in the earnings per Share and net asset value per Share.

Under the HKFRS, the costs of share options to be granted under the Share Option Scheme will be charged to our income statement over the vesting period by reference to the fair value at the date of granting of the share options. As a result, our profitability may be adversely affected.

We may require additional funding for future growth

We may find opportunities to grow through acquisitions that cannot be anticipated at this juncture. Under such circumstances, secondary issue(s) of securities after the Share Offer may be necessary to raise the required capital to capture these growth opportunities. If new Shares are issued to new and/or existing Shareholders after the Share Offer, they may be priced at a discount to the then prevailing market price of the Shares trading on the Stock Exchange. In such case, existing Shareholders' equity

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interest may be diluted. If we fail to utilize the new equity to generate a commensurate increase in earnings, our earnings per Share will be diluted and this could lead to a decline in our share price. Any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

Dividend policy

The declaration, payment and amount of any future dividend of our Company will be subject to the discretion of the Directors, and will depend upon, among other things, our result of operations, cash flows and financial condition, operating and capital requirements and other relevant factors prevailing at the time. There is no assurance that dividends will be declared at all in the future, and potential investors should be aware that historical dividends should not be used as a reference or basis upon which future dividends may be determined.

RISKS RELATING TO INFORMATION CONTAINED IN THIS PROSPECTUS

Certain statistics and facts in this prospectus are derived from various official government sources and publications or other sources and have not been independently verified

This prospectus includes certain statistics and facts that are extracted from official government sources and publications or other sources. We believe that such statistics and facts are prepared by the relevant sources after having taken reasonable care. Whilst we believe that it is prudent for it to rely on such statistics and facts, there is no assurance that such statistics and facts are free from error or mistake. The statistics and facts from these sources have not been independently verified by us, the Sponsor, the Lead Manager, the Underwriter, or any of their respective directors, affiliates or advisers or any other party involved in the Share Offer and no representation is given as to their accuracy and completeness. Due to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such statistics or facts.

Information contained in press articles or other media

We wish to emphasize to prospective investors that we do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media coverage, and such information that was not sourced from or authorised by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information contained in any press articles or other media. To the extent that any of the information is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any of the information in any press articles or other media.

RISK FACTORS

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “may”, “ought to”, “should” or “will” or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this “Risk factors” section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans, or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE IN HONG KONG UNDER THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

Our principal place of business, offices and factory are primarily located, managed and conducted in the PRC, and our senior management members are and will therefore continue to be based in the PRC. We do not and will not in the foreseeable future have two executive Directors residing in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, our Company will put in place the following measures:

- (i) our Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. Our Company has appointed Mr. Li Wai See (李偉思), the company secretary of our Company, who is ordinarily resident in Hong Kong, and Mr. Yu, as the two authorised representatives of our Company;
- (ii) both authorised representatives of our Company will have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters;
- (iii) each Director will provide his mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange;
- (iv) all the Directors who are not ordinarily resident in Hong Kong have or can apply for valid travel documents to visit Hong Kong for business purposes and could be able to meet with the Stock Exchange within a reasonable period; and
- (v) our Company will appoint ECF as compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will act as an additional channel of communication with the Stock Exchange.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

We have a transaction with a Connected Person that is expected to continue after Listing and will constitute non-exempt continuing connected transaction of our Company under the Listing Rules upon Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the strict compliance with the relevant requirements in respect of such non-exempt continuing connected transaction under Chapter 14A of the Listing Rules. The details of such waiver are set out in the section headed “Connected Transactions” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Cap. 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

FULLY UNDERWRITTEN

The Share Offer comprises 10,000,000 Public Offer Shares initially available for subscription by the public under the Public Offer and 90,000,000 Placing Shares initially available for subscription by professional, institutional and individual investors under the Placing, in each case at the Offer Price payable in full on application (plus brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% on such price) and subject, in each case, to reallocation on the basis described in the section headed "Structure of the Share Offer" in this prospectus. Pursuant to the Underwriting Agreements, the Company, subject to the condition as set out in the paragraph headed "Offer Size Adjustment Option" in the section headed "Structure of the Share Offer" of this prospectus, has also granted the Offer Size Adjustment Option to the Lead Manager exercisable by the Lead Manager (in the capacity as the Placing Underwriter as well) to require the Company to issue up to 15,000,000 additional Shares at the Offer Price to cover any shares issued pursuant to the Offer Size Adjustment Option in the Placing.

The Share Offer is sponsored by the Sponsor and lead managed by the Lead Manager. The Public Offer is fully underwritten by the Public Offer Underwriter under the terms of the Public Offer Underwriting Agreement and the Placing is expected to be fully underwritten by the Placing Underwriter pursuant to the Placing Underwriting Agreement and are subject to the Company and the Lead Manager agreeing on the Offer Price. For more information about the Underwriter and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be fixed by agreement between the Lead Manager and our Company on or before Friday, 4 October 2013, or such other time and date as may be agreed between the parties, but in any event, no later than 6:00 p.m. (Hong Kong time) on Tuesday, 8 October 2013.

If our Company and the Lead Manager are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Tuesday, 8 October 2013, or such other time as may be agreed between our Company and the Lead Manager, the Share Offer will not proceed and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to confirm and is deemed by his/her/its acquisition of the Offer Shares to have confirmed that he/she/it is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he/she/it is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws of such jurisdictions and pursuant to registration with or authorisation by the relevant regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the listing of, and permission to deal in the Shares in issue and to be issued pursuant to the Share Offer, and Shares falling to be issued pursuant to the Capitalisation Issue and any Shares which may fall to be issued pursuant to the exercise of the Offer Size Adjustment Option or the options to be granted under the Share Option Scheme.

No part of the share or loan capital of our Company is listed or dealt in on any other stock exchange and at present no such listing or permission to deal is being or proposed to be sought.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares to be issued upon exercise of the Offer Size Adjustment Option or the options which may be granted under the Share Option Scheme will be registered on our Company's branch register of members maintained by Tricor Investor Services Limited. Our Company's principal register of members will be maintained in the Cayman Islands. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange. Dealings in the Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription of the Offer Shares, or purchase, holding, disposal of or dealing in, the Shares or the exercise of any rights in relation to them, you should consult an expert.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Our Company, the Sponsor, the Underwriter and any of their respective directors, agents or advisers or any other person involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, or purchase, holding, disposal of or dealing in, the Offer Shares or the exercise of any rights in relation to the Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Investors should seek advice of their licensed securities dealers or other professional advisers for details of the settlement arrangements as such arrangements will affect their rights, interests and liabilities. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreement, our Company will grant to the Lead Manager the Offer Size Adjustment Option, which is exercisable by the Lead Manager (in the capacity as the Placing Underwriter as well) at any time during the period from the date of this prospectus to: (i) the second business day prior to the Listing Date (that is on 9 October 2013); or (ii) the 30th day from the date of this prospectus, whichever is earlier, in writing, to require our Company to allot and issue up to 15,000,000 additional Shares at the Offer Price, representing 15% of the total number of Offer Shares initially available for subscription under the Share Offer. Any such additional Shares may be issued to cover any excess demand in the Share Offer at the absolute discretion of the Lead Manager.

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Lead Manager to meet any excess demand in the Share Offer. The Offer Size Adjustment Option will not be associated with any price stabilisation activities of the Shares in the secondary market after the Listing and will not be subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the laws of Hong Kong). No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Share Offer which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

Our Company will disclose in its allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. The allotment results announcement will be published on the Stock Exchange website at www.hkexnews.com.hk and our Company's website at www.ludaocn.com.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out under the section headed "How to apply for the Public Offer Shares" in this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out under the section headed “Structure of the Share Offer” in this prospectus.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Friday, 11 October 2013. Shares will be traded in board lots of 4,000 Shares each.

ROUNDING

Any discrepancies in any table in this prospectus and the Application Forms between totals and sums of individual amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Yu Yuerong (虞岳榮)	No. 275 Hou Yang Huang Village Xin Qian Road Huangyan District Taizhou City Zhejiang Province the PRC	Chinese
Mr. Han Jianhua (韓劍華)	Room 101, Unit 211 Block 59, Haitang Xin Cun Dongcheng Street Huangyan District Taizhou City Zhejiang Province the PRC	Chinese
Ms. Pan Yili (潘伊莉)	Luojiahui Village Chengguan Zhen Huangyan District Taizhou City Zhejiang Province the PRC	Chinese
<i>Independent non-executive Directors</i>		
Ms. Cho Mei Ting (曹美婷)	Flat D, 11/F, Tower 10 Cairnhill, Route Twisk Tsuen Wan, New Territories Hong Kong	Chinese
Mr. Wong Chi Wai (黃馳維)	Flat 13G, Block 8 Lily Mansions Whampoa Garden, Kowloon Hong Kong	Chinese
Mr. Ruan Lianfa (阮連法)	Room 403, Block 54 Qiushi Village Xihu District Hangzhou City the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	Essence Corporate Finance (Hong Kong) Limited 39th Floor, One Exchange Square Central Hong Kong
Bookrunner and Lead Manager	Essence International Securities (Hong Kong) Limited 39th Floor, One Exchange Square Central Hong Kong
Placing Underwriter	Essence International Securities (Hong Kong) Limited 39th Floor, One Exchange Square Central Hong Kong
Public Offer Underwriter	Essence International Securities (Hong Kong) Limited 39th Floor, One Exchange Square Central Hong Kong
Financial adviser	Donvex Capital Limited Rooms 1305–6, 13th Floor Carpo Commercial Building 18–20 Lyndhurst Terrace Central Hong Kong (<i>Note 1</i>)
Legal advisers to the Company	<i>As to Hong Kong law:</i> Hastings & Co. 5th Floor Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong <i>As to PRC law:</i> Zhong Lun Law Firm 10/F, Tower A, Rongchao Centre 6003 Yitian Road, Futian District Shenzhen 518026 PRC

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to Cayman Islands law:

Appleby
2206–19 Jardine House
1 Connaught Place
Central
Hong Kong

As to US law:

Kaufman & Canoles, P.C.
Two James Centre
1021 East Cary Street
Suite 1400
Richmond
Virginia 23219
USA

As to US sanction law:

Fulbright & Jaworski LLP
801 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2623
USA

As to United Nations sanction law:

Norton Rose Fulbright LLP
3 More London Riverside
London, SE1 2AQ
United Kingdom

**Legal adviser to the Sponsor
and the Underwriter**

As to Hong Kong law:

TC & Co.
Units 2201–3, 22nd Floor
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

Reporting accountant

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Internal control adviser

KL CPA Limited
Room 303, Carpo Commercial Building
18–20 Lyndhurst Terrace
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PRC tax adviser	Guangdong Zhonghaiyue Certified Public Accountants Co., Ltd Room 1518 111-115 Siyou Xinmalu Yuexiu District Guangzhou City the PRC
Property valuer	Stirling Appraisals Limited Unit A, 15/F Wing On Cheong Building No. 5 Wing Lok Street Central Hong Kong
Receiving banker	The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

Note 1: The role of Donvex Capital Limited is to assist us to communicate with professional parties and to advise the offering structure and the future business development of our Group.

CORPORATE INFORMATION

Registered office	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarter and principal place of business in the PRC	No. 5 Sanmen Industry Road Sanmen Industry Zone Taizhou City Zhejiang Province the PRC
Principal place of business in Hong Kong	Flat B, 17th Floor, Harvest Building 29–37 Wing Kut Street Central Hong Kong
Website address	www.ludaocn.com <i>(information on this website does not form part of this prospectus)</i>
Company secretary	Mr. Li Wai See (李偉思) Flat B, 29/F, Block 10 Monte Vista Ma On Shan New Territories Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Yu Yuerong (虞岳榮) Mr. Li Wai See (李偉思)
Authorised representative (for the purpose of Part XI of the Companies Ordinance)	Mr. Li Wai See (李偉思)
Compliance adviser	Essence Corporate Finance (Hong Kong) Limited 39th Floor, One Exchange Square Central Hong Kong
Members of Audit committee	Mr. Wong Chi Wai (黃馳維) (<i>Chairman</i>) Ms. Cho Mei Ting (曹美婷) Mr. Ruan Lianfa (阮連法)

CORPORATE INFORMATION

Members of Nomination committee	Ms. Cho Mei Ting (曹美婷) (<i>Chairlady</i>) Mr. Wong Chi Wai (黃馳維) Mr. Ruan Lianfa (阮連法) Mr. Yu Yuerong (虞岳榮)
Members of Remuneration committee	Mr. Wong Chi Wai (黃馳維) (<i>Chairman</i>) Ms. Cho Mei Ting (曹美婷) Mr. Ruan Lianfa (阮連法) Mr. Yu Yuerong (虞岳榮)
Principal share registrar and transfer office	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal banker	The Hongkong & Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

INDUSTRY OVERVIEW

We have extracted and derived the information and statistics in the section below, and other sections of this prospectus, in part, from the report on the aerosol industry issued by CRI, an independent market research company that we commissioned. In addition, the section contains information derived from several official government publications and sources as identified.

We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any material fact has been omitted that would render such information false or misleading. Neither we, nor the Sponsor, or the Bookrunner and Lead Manager, nor any of our respective directors or advisors, nor any other parties related in this Share Offer have independently verified such information and statistics derived from these sources, and such parties do not make any representations as to their accuracy and completeness.

1. INTRODUCTION

We have commissioned CRI, an independent market research company based in the PRC, to analyze and report on the aerosol industry. CRI was paid with a fee of RMB0.16 million, which we believe such reflects the market rate.

CRI is a research and consulting company focusing on various industries and markets. It provides customised industry research services for initial public offerings, corporate mergers and acquisitions, business development, market launch and financing for clients varying from private companies to the government entities. It also produces a variety of market research reports, industry analytical reports and publications covering different industries.

Over the years, CRI has established strategic partnerships with many institutions in the U.S., Canada, Australia, Hong Kong, and has accumulated a wealth of international resources, as well as advanced research methods from such strategic partnerships.

The information contained in the CRI Report was derived from data and intelligence collected from various sources which include but not limited to government and regulatory statistics, industry association reports and data and data obtained from interviews with manufacturers, distributors and experts.

To ensure the credibility, accuracy and reliability of the forecasts, the market specialists at CRI firstly assessed and recalculated, if necessary, relevant data from different institutions according to actual conditions. They subsequently integrated a variety of information, including the assessed and recalculated data, and opinions gathered from the market research process and put forward their own views. Such views, in conjunction with (i) the aforesaid parameters such as the global and the PRC's macroeconomic data; and (ii) forecasts on economic trends, were then internally discussed on for validating the forecast data. Before finalizing the CRI Report, the market specialists verified the reliability and logic of the forecast data by sample inspecting various data or information in the reports and results of the trade interviews.

INDUSTRY OVERVIEW

CRI is independent of us and none of our Directors or their Associates has any interest in CRI.

2. AEROSOL PRODUCTS

The aerosol industry is a branch of the fine chemicals industry. An aerosol product is a product that sprays the contents out of the aerosol can and its valve by utilizing the pressure of the propellant to create a mist, paste, powder or foam-like of liquid particles. The aerosol can, the aerosol valve, the contents and the propellant are four components of an aerosol product.

The aerosol product market consists of over 2000 kinds of products applied in a variety of economic sectors. The international common classification of aerosol products is based on the field of its application, which can be divided into seven categories, namely, personal care aerosol products, household aerosol products, aerosol insecticides, automotive aerosol products, aerosol paints, food aerosol products and medical aerosol products.

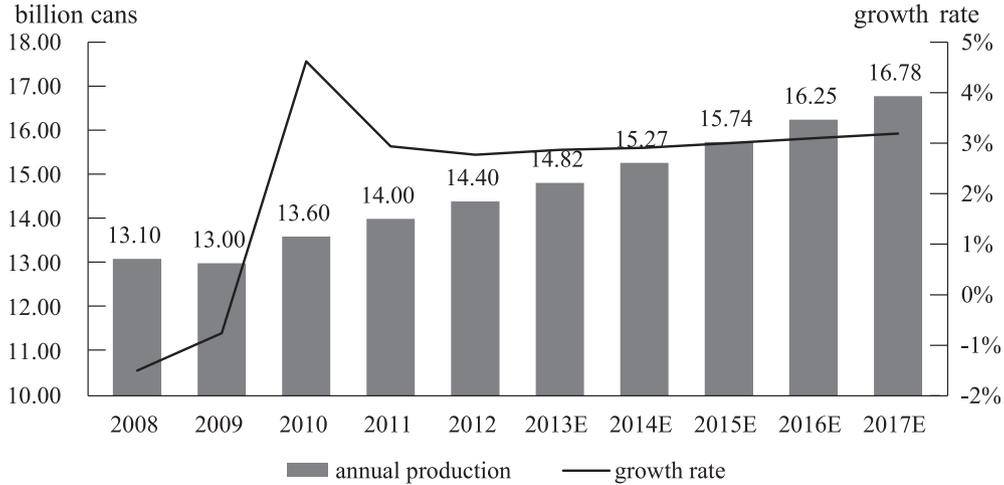
The majority of our products are household aerosol products including air fresheners and we also produce some kinds of personal care products, automotive aerosol products and insecticides. Our household aerosol products include a variety of air-fresheners and household cleaning products such as window cleaning, stove cleaning and bathroom cleaning products. Air-fresheners and household cleaning products represented the majority of our products during the Track Record Period. Our automotive aerosol products include tire cleaning products, multi-purpose cleaning products and car-seat cleaning products etc. Our aerosol insecticides generated the least revenue for our Group during the Track Record Period. We also produce a few other kinds of personal care aerosol products including hair mousse, hair spray and shaving foam.

3. THE GLOBAL AEROSOL INDUSTRY

According to the CRI Report, the global production of aerosol products increased from approximately 13.10 billion cans in 2008 to approximately 14.40 billion cans in 2012. During the financial crisis in 2008, the global consumer market suffered a setback and the global production of aerosol products was affected by the market conditions in 2008 and 2009. The market generally recovered in 2010 and maintained rapid growth in the following years. The global annual production of aerosol products is expected to be more than approximately 16.78 billion cans in 2017, representing a CAGR of approximately 3.0% from 2013 to 2017, which is mainly attributable to the rapid development of the PRC and other emerging markets. The following diagram illustrates the global annual production of aerosol products from 2008 to 2012 and the estimated global annual production of aerosol products from 2013 to 2017.

INDUSTRY OVERVIEW

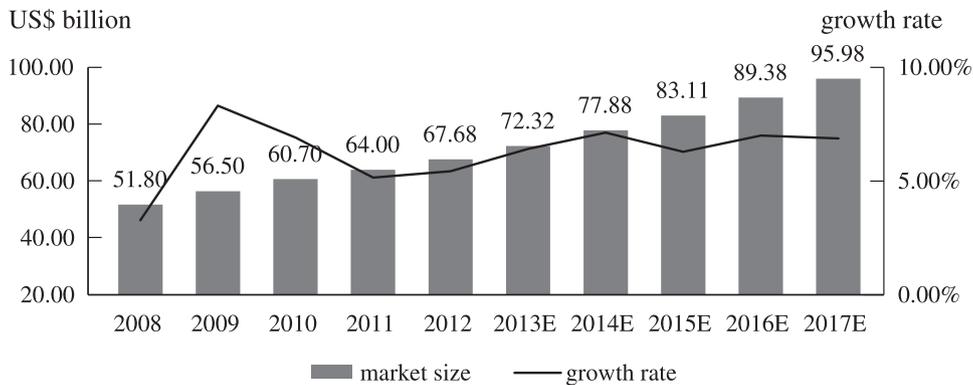
Global Annual Aerosol Production



Source: CRI Report

As indicated in the annual production diagram, the demand for aerosol products maintains a continuous growing trend. The growing demand for the global aerosol products is mainly in North America, Europe and other developed regions. The development of Asia and other emerging countries has also become an important source of demand growth in recent years. The global aerosol market has reached approximately US\$67.68 billion in 2012 from approximately US\$51.80 billion in 2008, representing a CAGR of approximately 6.9% from 2008 to 2012. The global aerosol market size is expected to grow at a CAGR of approximately 7.3% to reach approximately US\$95.98 billion in 2017. The following diagram illustrates the market size of the global aerosol industry from 2008 to 2012 and the estimated market size of the global aerosol industry from 2013 to 2017.

Global Annual Aerosol Product Market Size



Source: CRI Report

At present, the global aerosol industry is mainly concentrated in Europe, North America and emerging markets such as the PRC, Brazil and Mexico. The continuous development of the PRC economy has promoted the growth of global demand for aerosol products.

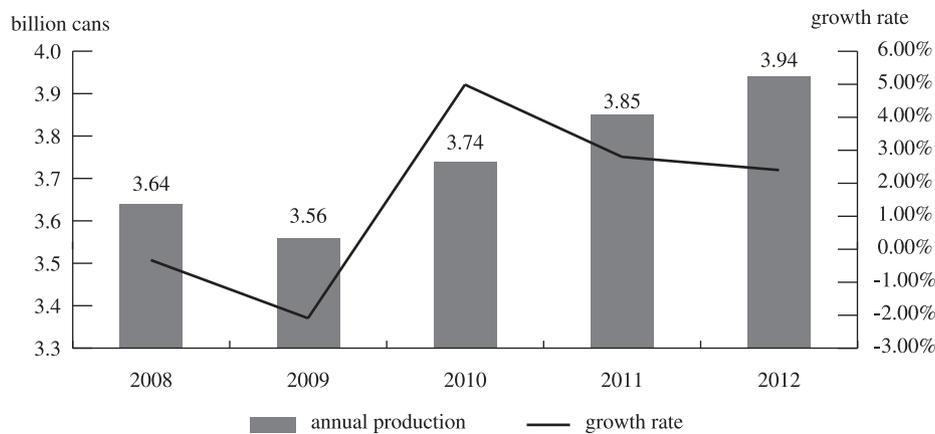
INDUSTRY OVERVIEW

According to the CRI Report on the aerosol industry, as indicated by the annual production volume, the demand for aerosol products maintains a growing trend. The demand for aerosol products is concentrated in North America and Europe with an upward trend. The emerging markets in Asia have also become a source which is driving the increase in demand of aerosol products. A large proportion of aerosol products manufacturers in the PRC provide CMS products while they produce OBM products. The majority our CMS products were exported to North America and Europe market.

4. THE AEROSOL PRODUCT MARKET IN THE US

4.1 Market Overview

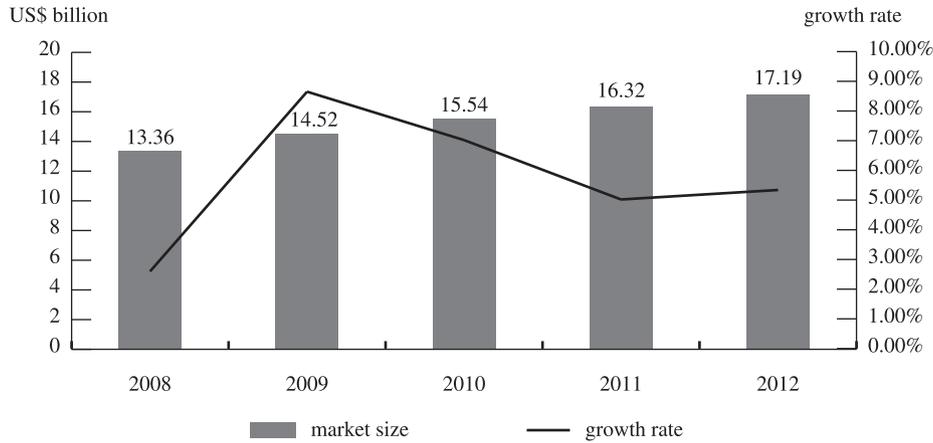
According to the CRI Report, the production of aerosol products in US increased from approximately 3.64 billion cans in 2008 to approximately 3.94 billion cans in 2012. Due to financial crisis in 2008, American consumer market suffered a setback and the production of aerosol products was affected by the market conditions in 2008 and 2009. The market generally recovered in 2010 and maintained high growth in the following years. In 2012, the production of American aerosol products reached approximately 3.94 billion cans, the CAGR has increased approximately 2.4% compared to the year in 2011. The following diagram illustrates the total production of aerosol products in the USA from 2008 to 2012:



Source: CRI Report

INDUSTRY OVERVIEW

The aerosol product market size in the USA has increased from approximately US\$13.36 billion in 2008 to approximately US\$17.19 billion in 2012, representing a CAGR of approximately 6.5% from 2008 to 2012. The following diagram illustrates the market size of the USA aerosol industry from 2008 to 2012.

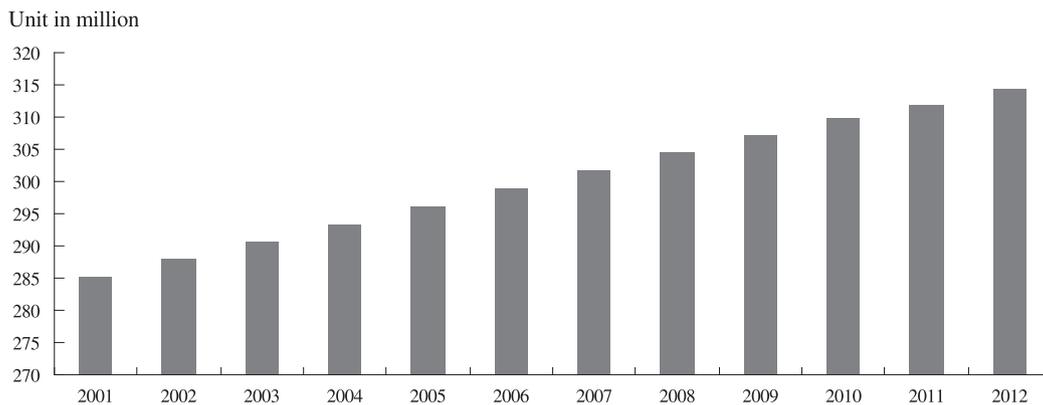


Source: CRI Report

4.2 Factors for the Demand for Aerosol Products in US

The US is a developed country and its rate of population growth remains high over the years. For a long of period of time, high growth rate of population results in rapid growth in production and consumption. As such, the market size of aerosol products is able to maintain a steady growth.

The US population from 2001 to 2012

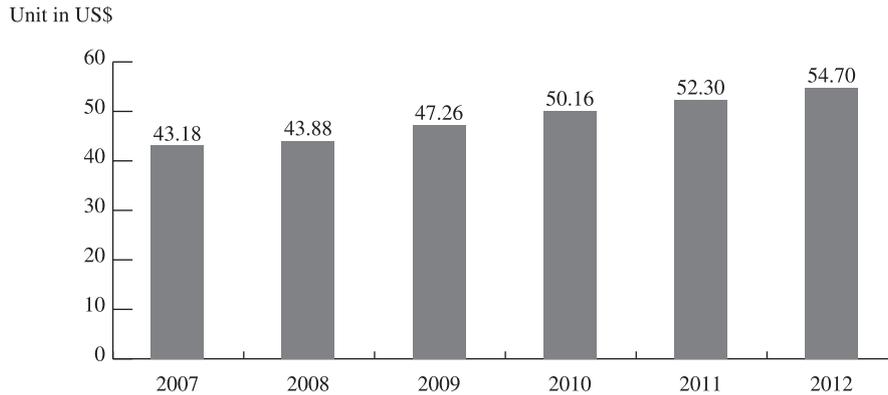


Source: U.S. Census Bureau

INDUSTRY OVERVIEW

According to the CRI Report, the consumption of aerosol products per capita in the US increased from approximately US\$43.18 in 2007 to approximately US\$54.70 in 2012. The following diagram illustrates a steady growth in the consumption of aerosol products per capita in the USA from 2007 to 2012:

Per Capita Consumption of Aerosol Products in the USA from 2007 to 2012

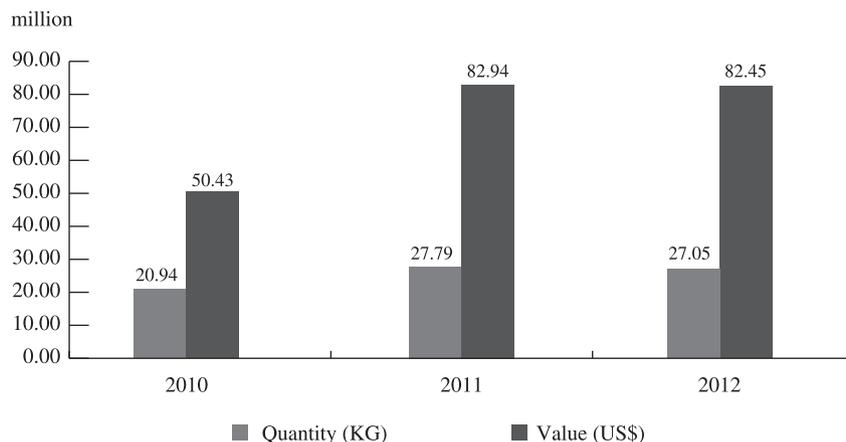


Source: CRI Report

4.3 Import from the PRC

The USA is a major export destination for daily chemical products including aerosol products from the PRC. According to the statistics from China Customs, the import value of daily chemical products that include aerosol products imported by the USA from the PRC has increased approximately 63.50% from 2010 to 2012. In 2012, the total value and quantity of daily chemical products that include aerosol products imported by the USA from the PRC amounted to approximately US\$82.45 million and 27.05 million kilograms respectively.

The USA's imports of daily chemical products that includes aerosol products from China from 2010 to 2012



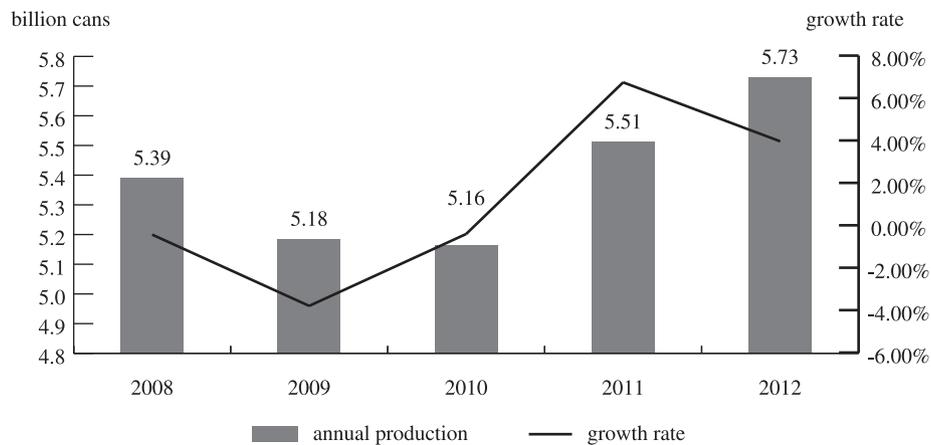
Source: China Customs

5. THE AEROSOL PRODUCT MARKET IN EUROPE

5.1 Market Overview

According to the CRI Report, the production of aerosol products in Europe increased from approximately 5.39 billion cans in 2008 to approximately 5.73 billion cans in 2012. During financial crisis in 2008, European consumer market suffered a setback and the production of aerosol products was affected by the market conditions in 2008 and 2009. The market generally recovered in 2010 and maintained growth in the following years. In 2012, the production of European aerosol products reached approximately 5.73 billion cans, with a growth rate of approximately 3.99% compared to the year in 2011. The following diagram illustrates the annual total production of aerosol products in Europe from 2008 to 2012:

Annual Total Production of Aerosol Producing in Europe from 2008 to 2012

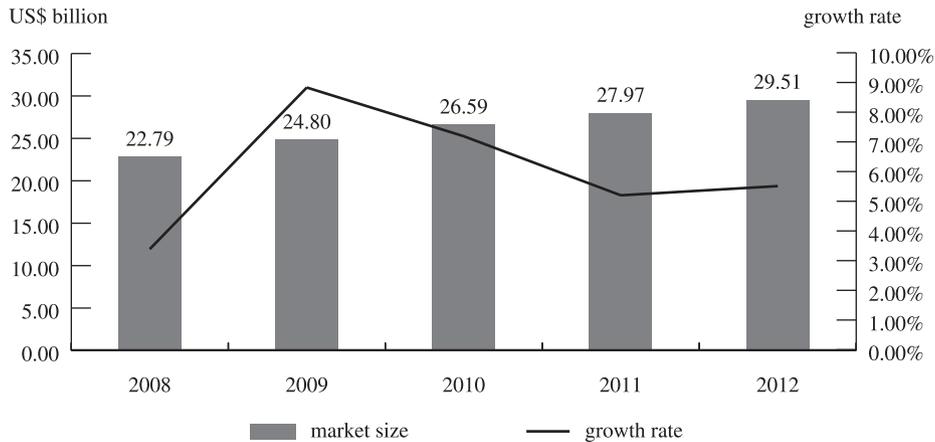


Source: CRI Report

INDUSTRY OVERVIEW

According to the CRI Report, the aerosol product market size in Europe has increased from approximately US\$22.79 billion in 2008 to approximately US\$29.51 billion in 2012, representing a CAGR of approximately 6.7%. Although the financial crisis in 2008 and 2009 hindered the growth of aerosol production, the demand for aerosol products kept growing. The following diagram illustrates the aerosol product market size in Europe from 2008 to 2012:

Annual Aerosol Product Market size in Europe from 2008 to 2012



Source: CRI Report

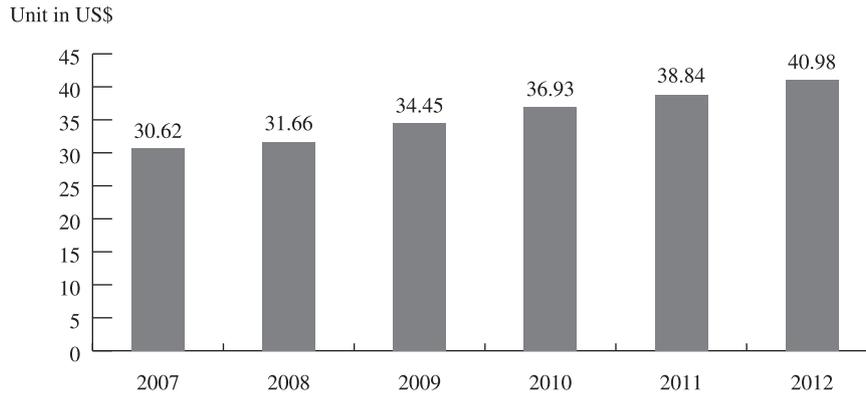
5.2 Factors for the Demand for Aerosol Products in Europe

Overall, the population of Europe has ceased from growth. There is still a gap between income level and consumption per capita among European countries. GDP per capita is still quite low in many eastern European countries where demands of consumption in aerosol products are able to maintain a high growth rate for a long period of time.

INDUSTRY OVERVIEW

According to the CRI Report, the consumption of aerosol products per capita in Europe increased from approximately US\$30.62 in 2007 to approximately US\$40.98 in 2012. The following diagram illustrates a steady growth in the consumption of aerosol products per capita in Europe from 2007 to 2012:

Per Capita Consumption of Aerosol Products in Europe from 2007 to 2012

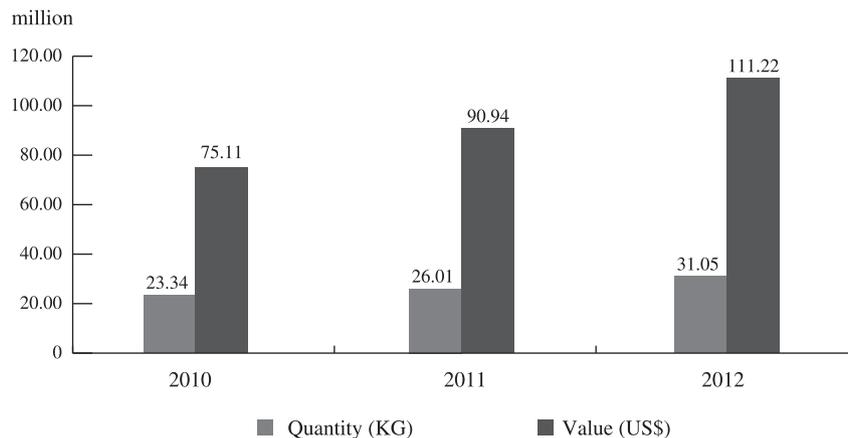


Source: CRI Report

5.3 Import from the PRC

Europe is another major export destination for daily chemical products including aerosol products from the PRC. According to the statistics from China Customs, the import value of daily chemical products that include aerosol products imported by Europe from the PRC has increased approximately 48.1% from 2010 to 2012. In 2012, the total value and quantity of daily chemical products that include aerosol products imported by Europe from the PRC amounted to approximately US\$111.22 million and 31.05 million kilograms respectively.

Europe's imports of daily chemical products that including aerosol products from the PRC from 2010 to 2012



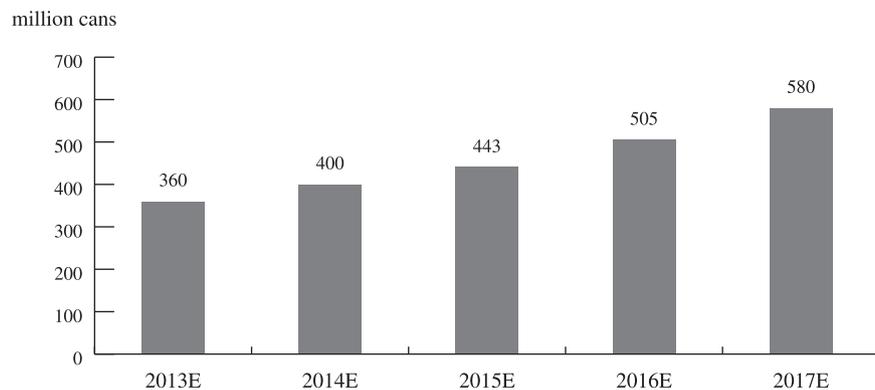
Source: China Customs

6. THE AEROSOL PRODUCT MARKET IN AFRICA

The climate in Africa is prone to the breeding of flies, mosquitos and other injurious insects. As a result, people suffer from infectious disease such as malaria, yellow fever and filariasis which are transmitted by injurious insects. According to data from World Health Organisation, more than 200 million people are infected with malaria every year. Insecticide, including aerosol insecticide, is one of the most effective methods to kill flies, mosquitos and other injurious insects. Aerosol insecticide is one of the most effective methods to kill flies, mosquitoes and other injurious insects. According to CRI, there is a potential of huge demand in the aerosol product market in Africa because of the high economic growth rate and rapid population growth rate in Africa.

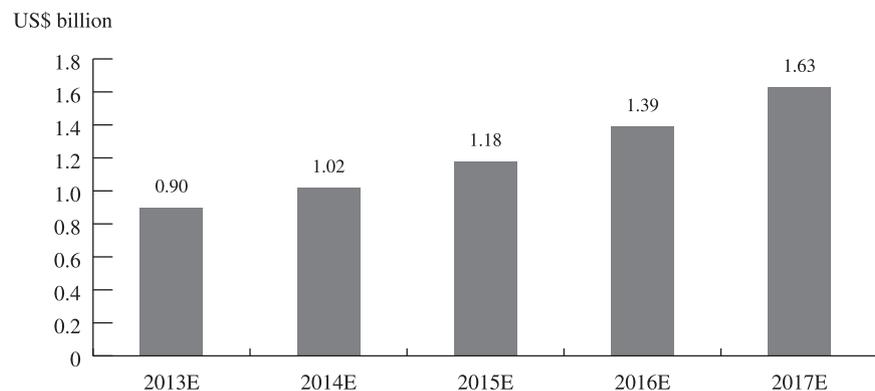
CRI estimated that the aerosol product sales volume in Africa would reach about approximately 360 million cans by 2013 and approximately 580 million cans by 2017, with a CAGR of approximately 12.66% from 2013 to 2017. The market scale of aerosol product retail in Africa will be approximately US\$900 million and is expected to reach approximately US\$1.63 billion by 2017, with a CAGR of approximately 16% from 2013 to 2017.

Forecast on sales volumes of aerosol product in Africa from 2013 to 2017



Source: CRI Report

Forecast on market scale of aerosol product retail in Africa from 2013 to 2017



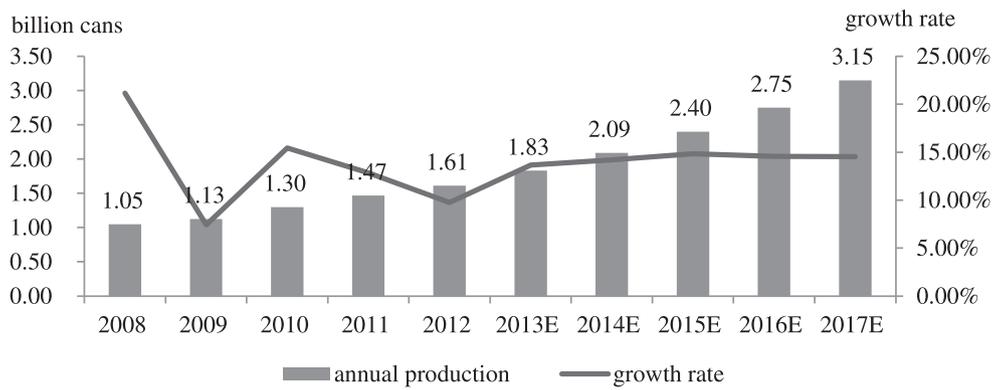
Source: CRI Report

7. THE AEROSOL INDUSTRY IN THE PRC

7.1 Development of the Aerosol Industry in the PRC

The continuous growth of the PRC’s economy leads to the rapid development of the aerosol industry. The CRI Report indicated that, as a result of the increase in consumption, the change of life style and consumption pattern as well as people’s growing knowledge about aerosol products, the aerosol industry has a substantial growth potential. The PRC is expected to be the third largest aerosol-producing region after Europe and the USA with a production the size of approximately 3.15 billion cans in 2017, making the PRC one of the major drivers of the growth in the global aerosol market. Annual aerosol production in the PRC has increased from approximately 1.05 billion cans in 2008 to approximately 1.61 billion cans in 2012, representing a CAGR of approximately 11.63%. The following diagram illustrates the total production of aerosol products in the PRC from 2008 to 2012 and the estimated total production of aerosol product from 2013 to 2017:

Annual Aerosol Production in the PRC

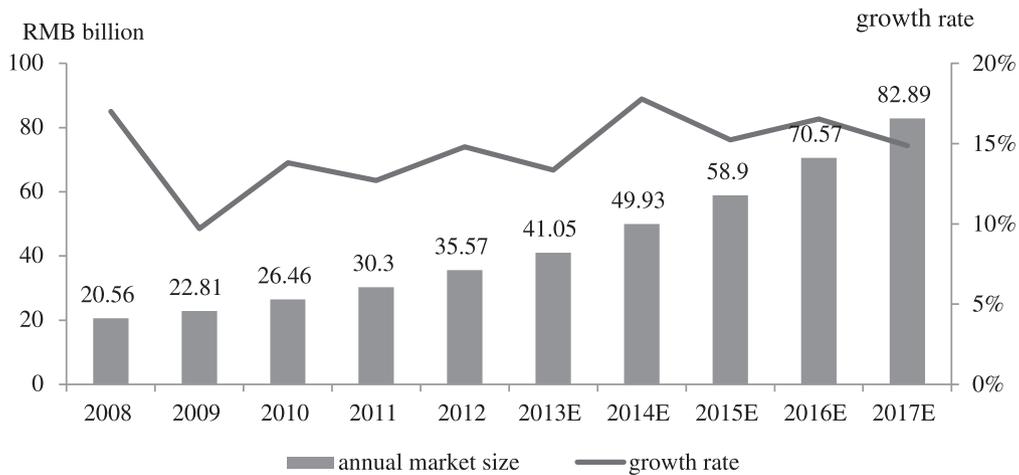


Source: CRI Report

INDUSTRY OVERVIEW

According to the CRI Report, as the aerosol products are direct consumer products, the demand of aerosol products has increased rapidly in line with the increase of household disposable income and development of consumer goods market. The CRI Report also stated that the size of the aerosol product market in the PRC increased from approximately RMB20.56 billion in 2008 to approximately RMB35.57 billion in 2012, with a CAGR of approximately 14.7%. According to the CRI Report, the aerosol product market size in the PRC is expected to grow at a CAGR of approximately 19.2% and reach approximately RMB82.89 billion in 2017. The following diagram illustrates the market size of aerosol industry in the PRC from 2008 to 2012 and the estimated market size from 2013 to 2017:

Annual Aerosol Product Market Size in the PRC



Source: CRI Report

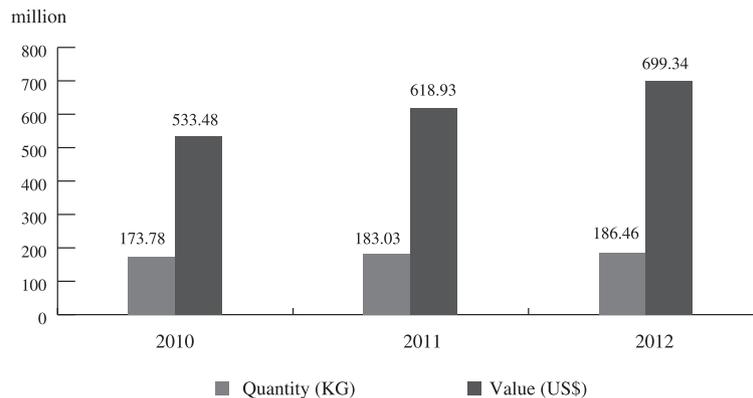
7.2 Factors for the demand for Aerosol Products

Firstly, strong economic growth and rapid urbanisation in the PRC has in turn boosted levels of disposable income of households. Rising levels of disposable income in both urban and rural areas allow people to spend more on aerosol products. Furthermore, the increasing trend of urbanisation influences people's lifestyle, particularly the young generations. More consumers are willing to leverage household aerosol products and personal care aerosol products in order to save their time and energy on housework and personal care. Moreover, home hygiene awareness stimulates the demand and consumption of household aerosol products, aerosol insecticide and automotive aerosol products.

7.3 Export of Aerosol Products in the PRC

The total export quantity and value of aerosol related products of the PRC in 2012 are approximately 186.46 million kilograms and US\$699.34 million respectively, with an increase of approximately 1.87% and 12.99% compared with that of 2011. The major categories of aerosol products exported are insecticides and household aerosol products such as air-fresheners and cleaning products. According to the CRI Report, the export of aerosol related products of the PRC is expected to grow steadily as indicated by the export data from the China Customs.

Total Export Quantity and Value of Daily Chemical Products including Aerosol Products in China of 2010, 2011 and 2012

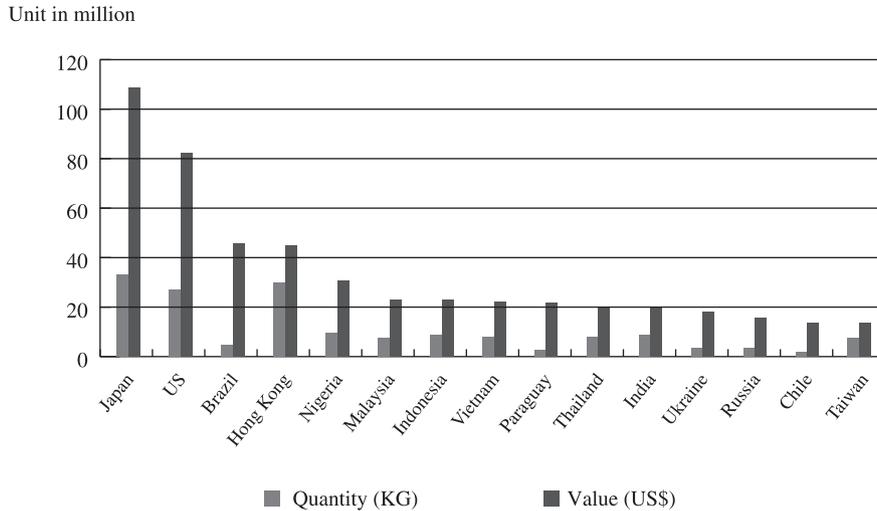


Source: China Customs

INDUSTRY OVERVIEW

According to the data from China Customs which is extracted from CRI report, the following are the major export destinations of the PRC's aerosol related products in 2012:

Major Export Destinations of the PRC's Aerosol Related Products in 2012



Source: China Customs, CRI Report

7.4 Competitive Landscape of Aerosol Product Manufacturing Industry in the PRC

According to the CRI Report, the competition among aerosol manufacturers in the PRC tends to ease and the degree of industry concentration increases gradually. The anticipated lower level of competition of the aerosol manufacturing industry can be attributed to the following factors. First, some small manufacturers gradually exit the market as a result of low product quality and a lack of brand channels. Second, a number of manufacturers has been eliminated from the industry because of the compulsory elimination of freon gas as an ingredient in aerosol products in the PRC. Third, due to maturity of production technology, research ability and capital of the industry, manufacturers gradually concentrate on the development and strengthen their advantage on producing different categories of aerosol products which results in a separation of the industry.

The entry barriers of the aerosol manufacturing industry in the PRC can be attributed to four main aspects (1) capital sufficiency for advanced machinery, (2) possession of cutting edge technology, (3) distribution network and (4) supply of raw materials.

Because of the variety of aerosol products, there are hundreds of aerosol manufacturers in major aerosol consumption countries, like the United States, Japan, Germany, etc. However, for a certain type of specific consumer goods, the market concentration of major products is very high, and the brand is the primary basis of customers' choices. According to the CRI Report, in general, the market share of our Group is in the leading position of the aerosol product manufacturing industry in the PRC. However, as most of our products are CMS products with low brand effect, our products have a relatively lower profit margin compared to that of some renowned international manufacturers.

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In order to obtain the ranking of a company in an industry, sales value and production volume are the common bases, which are normally applied for industry analysis. However, the aerosol product market is consisted of over 2000 different kinds of products, of which the price range is very much diversified. Due to the fact that aerosol manufacturers in China mostly produce on a CMS basis, the price of CMS aerosol products is relatively low in China. It is because using sales value for ranking may not reflect the actual competitive strength of the aerosol product manufacturers in the PRC, using production volume for ranking is another reasonable way to demonstrate the market share of the aerosol product manufacturers in the PRC. CRI believes that using production volume is a reasonable basis after interviewing different PRC aerosol manufacturers, aerosol product distributors and industry experts. Therefore, in the CRI Report, the total production volume was used as the basis for ranking. According to the CRI Report, in 2010, 2011 and 2012 we were ranked top 5 in overall aerosol products market in the PRC with a market share of approximately 4.62%, 5.45% and 5.19% in terms of total production in the PRC respectively. The following table sets forth the market share of the top five aerosol products manufacturers in terms of total production in the PRC for periods indicated.

Ranking	Company	Product nature	Market Share		
			2010	2011	2012
1	Company A	Automotive aerosol product	8.46%	8.86%	8.07%
2	Company B	Household aerosol product, Aerosol insecticide	9.23%	8.18%	7.76%
3	Company C	Household aerosol product, Aerosol insecticide, Automotive aerosol product, Personal care aerosol product	6.92%	6.82%	6.83%
4	Company D	Household aerosol product, Aerosol insecticide, Automotive aerosol product	6.15%	6.13%	6.21%
5	Our Group	Household aerosol product, Aerosol insecticide, Automotive aerosol product	4.62%	5.45%	5.19%
Total			<u>35.38%</u>	<u>35.44%</u>	<u>34.06%</u>

Source: CRI Report

INDUSTRY OVERVIEW

The following table illustrates the competitive landscape of the top 5 aerosol product manufacturers in the PRC as at the end of 2012 for reference:

<u>Company</u>	<u>Major customer's nature and location</u>	<u>Product Mix</u>	<u>CMS and OBM product distribution channels</u>	<u>number of production lines</u>	<u>Research and Development Expenses to Total Sales</u>
Company A	Major customers are CMS customers that are petro, auto, and daily chemical companies mainly located in China. Some products are mainly re-exported via Hong Kong.	Approximately 50% are CMS products and 50% are OBM products	Customers control sales channels of CMS products including export channels and domestic sales channels, mainly export destination is Hong Kong (Port of transshipment), OBM products are sold through distributors.	Over 20	Approximately 1.80%
Company B	Major customers are dealers, supermarkets located in the China.	All products are OBM products	Products are sold through distributors mainly to supermarkets.	Over 10	Approximately 1.60%
Company C	Major customers are CMS customers that are daily chemical companies and international trading agents located in China.	Approximately 80% are CMS products and 20% are OBM products	Some CMS products are transferred via Hong Kong to overseas markets. OBM products of the company are sold through distributors to retail shops.	Over 10	Approximately 1.10%
Company D	Major customers are international trading agents located in China.	Approximately 30% are CMS products and 70% are OBM products	Most of CMS products of the company are transferred via Hong Kong to overseas markets. OBM products of the company are sold through distributors mainly to supermarkets.	Over 10	Approximately 2.30%
Our Group	Major customers are CMS customers that are outsourcing agent companies of overseas brand owners located in China and export and trading companies mainly in the USA and Europe.	Approximately 83% are CMS products and 17% are OBM products	Most of CMS products of the company are exported mainly to the USA and Europe market. OBM products of the company are sold through distributors.	11	Approximately 3.70%

Source: CRI Report

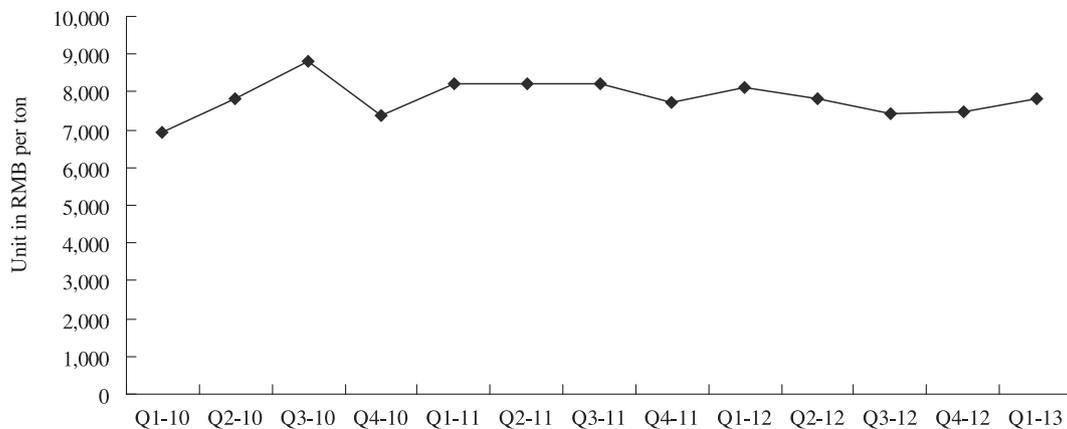
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8. KEY RAW MATERIAL CONSUMED BY OUR GROUP

The tinplate aerosol can is the major raw material consumed by our Group for manufacturing aerosol products made of tinplate steel. Tinplate is composed of electroplated steel sheets which both sides are coated with commercial pure tin of cold-rolled low-carbon steel sheet or strip. Tinplate is widely used in the packaging of food beverages, oil, chemicals, coatings, paints, aerosol spray cans, caps and many other daily necessities.

Most of the aerosol cans produced in the PRC are tinplate cans. According to the CRI, the tinplate price in China fluctuated in 2010 in accordance with China's steel price which was affected by (1) the increase of PBOC's deposit-reserve ratio in February 2010; (2) the increase of iron ore and demand for steel in February 2010, (3) the European debt crisis and (4) the improvement of China's commodity market. There is not much fluctuation of tinplate price in the PRC from 2011 to 2012. Tinplate generally accounted for more than 50% of the total cost of the aerosol canister. Due to the variance of logistic cost in different regions of the PRC, the price difference of tinplate can be up to hundreds of RMB per ton. Moreover, depending on different manufacturing specifications, actual transaction price of tinplate is approximately 5% to 10% plus or minus.

Price (include taxes) of 0.25mm tinplate from Q1 2010 to Q1 2013

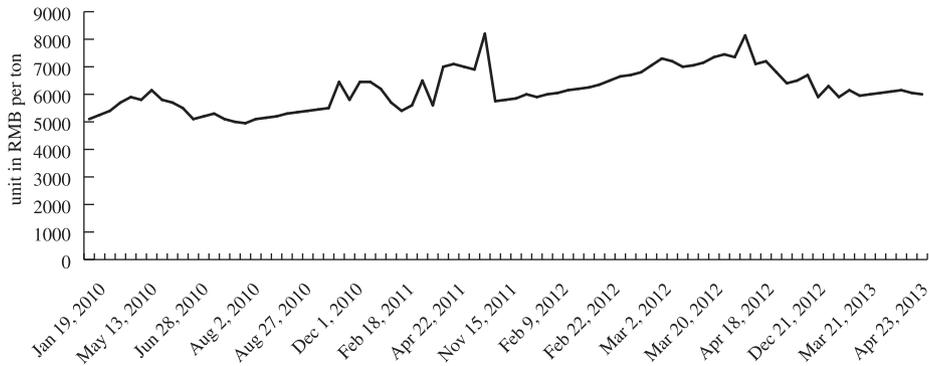


Source: Alibaba.com, China Logistics Information Center, CRI Report

Butane gas is one of the major raw materials of our aerosol products. Butane is an important raw material in the production of petroleum chemicals and organic raw materials. It can be used as propellant to produce aerosol. The following chart illustrates the price trend of butane in China's market from January 2010 to March 2013. According to the chart, the price range of butane gas is approximately RMB5,000 to 8,000 per ton. Butane gas is a product from oil field gas, wet natural gas and cracked gas. Thus, the butane gas price closely follows the changes of international oil price but lags behind that of the international oil price. In 2011, the price of NYMEX crude oil reached its peak

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of approximately US\$113.73 per barrel in 2011 from approximately US\$92.99 per barrel in January which amounted to an increase of approximately 22.30%. Driven by the increase of the crude oil price, the price of butane gas experienced an increase of approximately 22.41% from approximately RMB5,800 per ton at the end of 2010 to approximately RMB7,100 per ton in April 2011.



Source: Zhongjie Petrochemical, CRI

Raw material price is not the only factor that affects the price of our products. Other factors such as inflation, rise of labor cost and appreciation of RMB to foreign currency also impact the price of our products. According to the CRI Report, the cost of tinplate aerosol cans has increased by at least 5% from 2009 to 2012. Consider the high inflation rate in the PRC in the past years, the increased production cost caused by the increase in tinplate aerosol cans cost can be digested by increasing the price of aerosol products.

OVERVIEW OF PRC REGULATIONS

Our operating subsidiaries in the PRC are mainly engaged in manufacture and sale of aerosol products. A summary of important provisions of the PRC laws and regulations relevant to our operating subsidiaries is set out below. There are no PRC laws and regulations that are specific to the aerosol industry.

PRC Wholly Foreign-owned Enterprises Law and its Implementation Regulation

According to the PRC Law on Wholly Foreign-owned enterprises (中華人民共和國外資企業法), which was promulgated on 12 April 1986 by the National People's Congress and amended on 31 October 2000 by the Standing Committee of the National People's Congress, the investments, profits, and other lawful rights and interests of a foreign investor are protected in the PRC. A foreign investor may remit abroad profits and other legal earnings from a wholly foreign-owned enterprise, as well as any remaining funds when the enterprise is liquidated.

According to the Implementation Rules on the PRC Law on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 by the Ministry of Foreign Trade and Economic Cooperation and amended on 12 April 2001 by the State Council of the PRC, the articles of association of a wholly foreign-owned enterprises shall become effective upon the approval by the examining and approving authority and the same procedures shall apply whenever any amendments thereto are made. Any division, merger, or any significant change in the registered capital of a wholly foreign-owned enterprise shall be subject to approval by the examining and approving authority. The enterprise shall engage a PRC qualified auditor for a capital verification report. Upon approval by the examining and approving authority, registration shall be made with the Administrative Bureau for Industry and Commerce.

Regulations concerning the Hygiene Supervision over Cosmetics (化妝品衛生監督條例)

Regulations concerning the hygiene supervision over cosmetics, promulgated by the State Council and effective as of 1 January 1990, were enacted for the purposes of strengthening hygiene supervision over cosmetics so as to ensure hygiene quality and safety use of cosmetics and to safeguard the consumers' health. According to the regulations, the State shall exercise hygiene supervision over the enterprises engaged in the production of cosmetics by means of Hygiene License system. Hygiene License for the Production Enterprise of Cosmetics shall be approved and issued by the hygiene administration department at the provincial, autonomous regional or municipal (directly under the Central Government) level. The term of validity of a Hygiene License for the Production Enterprise of Cosmetics is four years and it must be verified after two years. No enterprise shall be allowed to engage in the production of cosmetics without a Hygiene License.

The Company has obtained the Hygiene License for the Production Enterprise of Cosmetics issued by the food and drug administration of Zhejiang province.

Regulations on the Administration of Production Licenses for Industrial Products (工業產品生產許可證管理條例)

The Regulation on the Administration of Production Licenses for Industrial Products, promulgated by the State Council and effective as of 1 September 2005, was formulated for the purpose of ensuring the quality and safety of important industrial products that are directly related to public safety, human health, safety of life and property and implementing state industrial policies.

The Regulation implements a production license system in respect of certain important industrial products. The General Administration of Quality Supervision, Inspection and Quarantine prepares the catalogue for such important industrial products in cooperation with other relevant departments under the State Council. No enterprise is allowed to produce products listed in such catalogue without a production license, neither is any entity or individual allowed to sell or use in its operational activities such products listed in the catalogue to which no production license has been granted.

Regulations on Pesticide Administration (農藥管理條例)

Regulations on Pesticide Administration, promulgated by the State Council on 8 May 1997 and amended on 29 November 2001, were formulated for the purposes of strengthening the supervision and administration of the production, marketing and use of pesticide, ensuring the quality of pesticide, protecting agricultural and forestry production and the ecological environment and safeguarding the health of human and domestic animal.

Pursuant to these regulations, (i) the State practises a pesticide registration system. The production (including production of technical grade products, formulation and repackaging, and these references remain same hereinafter) of pesticide must be registered. Where a manufacturer intends to manufacture pesticide products, the manufacturer shall make an application for pesticide registration, and present the data as required in these Regulations. A Pesticide Registration Certificate shall be issued by the competent administrative department of agriculture of the State Council. (ii) the State practises a licensing system for pesticide production. When producing pesticides for which national standards or trade standards are available, an application for a Pesticide Production License shall be submitted to the department for licensing administration of industrial products of the State Council. The production of pesticides for which national or trade standards are not yet available but enterprise standards are available shall, upon the examination and approval by the departments for licensing administration of industrial products of provinces, autonomous regions and municipalities directly under the Central Government, be reported to the administrative department of chemical industry of the State Council for approval, and be issued with the approval document for pesticide production.

We have four pesticide registration certificates that are due to expire in December 2013. Our Directors confirm that the relevant PRC authority would process renewal application 3 months before the expiry date of the pesticide registration certificates. As at the Latest Practicable Date, we had submitted the renewal application for three certificates and we planned to renew the outstanding one by the end of October 2013.

Pursuant to the Regulations on Pesticide Administration, anyone who continues to produce pesticides after the expiry of the pesticide registration may have criminal liability. If the criminal liability is not established, the relevant authority may require the renewal of the pesticide registration be

PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

made within a certain period of time. The maximum financial exposure to our Group is that (i) illegal gain is confiscated; and (ii) a fine of not more than five times the amount of illegal gain is imposed; and if no illegal gain is made, the authority may impose a fine of not more than RMB50,000.

Our Directors confirmed that we have not experienced difficulty in renewing the pesticide registration certificates in the past. As advised by the PRC Legal Adviser, there is no legal impediment in relation to the renewal of the pesticide registration subject to our obtaining of the relevant examination reports in satisfaction of the relevant laws and regulations.

In the event that the renewal of the pesticide registration is unsuccessful, please refer to the risk factor in the paragraph headed “Risk Factors — Risk of failure to renew our licences and permits” for the financial and operational impact on our Group.

Standardisation Law (標準化法)

The PRC Standardisation Law (“**Standardisation Law**”), which came into effect on 1 April 1989, sets out the legal framework for the development of standard directives and their applications by all industries and sectors nationwide. Pursuant to the Standardisation Law and the interpretations thereof, those for safeguarding human health and ensuring the safety of person and property and those for mandatory execution as prescribed by the laws and administrative rules and regulations shall be mandatory standards, whereas all others shall be recommended standards.

Where products do not conform with the mandatory standards, manufacturers may be required to stop their production and such products may be confiscated, destroyed or sent for mandatory technical testing and relevant manufacturers and responsible persons fined.

Where products for sale do not conform with the mandatory standards, the distributors may be required to stop sales of such products, recall the products, destroy the products or send the products for mandatory technical testing. Any profits will be forfeited, and the distributors and relevant responsible persons will be fined.

We had filed two records on product standards, which is due to expire in August 2013. We have submitted renewal application of such product standards in July 2013 and two new certificates were issued on 19 July 2013 which will expire on 18 July 2016.

Pursuant to the Implementation Rules of the PRC Standardisation Law, enterprises that fail to submit product standards to the relevant authorities for record may be criticized or imposed administrative sanctions.

Pursuant to the Zhejiang Province Standardisation Management Regulations 《浙江省標準化管理條例》, the maximum financial exposure to the Group is a fine of not more than RMB1,000.

PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Laws and Regulations related to Intellectual Property Rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including the Patent Law of the PRC (中華人民共和國專利法) (the “**Patent Law**”), which was adopted in 1984 and amended in 1992, 2000 and 2008, and the Trademark Law of the PRC (中華人民共和國商標法) (the “**Trademark Law**”), which was adopted in 1982 and amended in 1993 and 2001.

Patent Law

According to the Patent Law, an “invention” refers to any new technical solution relating to a product, a process or improvement thereof; an “utility model” refers to any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use; a “design” means any new design of the shape, pattern or their combination, or the combination of colour and shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.

After the grant of the patent right for an invention or utility model, or a design, except where otherwise stipulated in the Patent Law, no unit or individual shall without the authorisation of the patent owner, exploit such patent, that is, to make, use, offer to sell, sell or import the patented product, or use the patented methods, and use, offer to sell, sell or import the product directly obtained by using the patented methods, for production or operation purposes. The patent right for inventions shall be valid for twenty years and the patent right for utility models and designs shall be valid for ten years, commencing from the date of application.

Trademark Law

According to the Trademark Law, the Trademark Office of the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局商標局) is responsible for the registration and administration of trademarks throughout China. The PRC Trademark Office’s decisions on rejection, opposition or cancellation of an application may be appealed to the Trademark Review and Adjudication Board of SAIC (國家工商行政管理總局商標評審委員會), whose decision may be further appealed through judicial proceedings. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark must not prejudice the existing right of others obtained by priority, nor may any person register in advance a trademark that has already been used by another person and has already gained “sufficient degree of reputation” through that person’s use. If no opposition is filed within three months after the public announcement period or if the opposition has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked.

Environmental Protection Law

The Environmental Protection Law of the PRC (中華人民共和國環境保護法), which came into force on 26 December 1989, lays down the basic legal framework for environmental protection in PRC. The purpose of the Environmental Protection Law is to protect and enhance the living environment, prevent and cure pollution and other public hazards, and safeguard human health. The State

PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Environment Protection Administration is responsible for the overall supervision and administration of environmental protection in the PRC and for formulating national standards for the discharge of waste materials. Local environmental protection bureaus at the county level and above are responsible for the supervision and administration of environmental protection within their jurisdiction.

Enterprises that would cause environmental pollution and other public hazards during their operations must adopt environmental protection measures and establish responsibility systems for environmental protection. Specifically, such enterprises are required to adopt effective measures to prevent and control environmental pollution and hazards caused by the discharge of waste gas, waste water, waste solids, dust, foul-smelling gases, noise, vibration, magnetic radiation and radioactive matter in the course of production, construction and other operating activities.

Enterprises discharging pollutants during their operation shall report to and register with the competent governmental agency for environmental protection. Should such enterprises discharge pollutants in excess of the prescribed national or local discharge standards, they shall eliminate and control the pollution and shall be subject to a fee for excessive discharge.

Governmental authorities can impose various types of penalties on persons or enterprises in violation of the Environmental Protection Law depending on the circumstances and the extent of pollution. Penalties include issuing a warning notice, imposing fines, setting a time limit for rectification, suspending production or ordering the termination and closure of enterprises or institutions.

The Prevention and Control of Air Pollution Law of the PRC (中華人民共和國大氣污染防治法), promulgated on 5 September 1987, the Prevention and Control of Water Pollution Law of the PRC (中華人民共和國水污染防治法), promulgated on 11 May 1984, the Prevention and Control of Environmental Pollution by Noise Law of the PRC (中華人民共和國環境噪聲污染防治法), promulgated on 29 October 1996, and the Prevention and Control of Environmental Pollution by Solid Wastes Law of the PRC (中華人民共和國固體污染環境防治法), promulgated on 30 October 1995 set out, respectively, the regulations governing the prevention and control of air, water, noise and water pollution in order to protect and improve the environment, safeguard public health and promote economic and social development.

Enterprises failing to comply with the provisions of the laws on the prevention and control of air, water, noise or solid waste pollution may be subject to warnings, fines, suspension of operations and closure of business, as determined by the relevant environmental protection authorities. Enterprises that cause air, water, noise or solid waste pollution are obligated to eliminate the pollution and are required to compensate the parties directly by the pollution for their losses. Criminal liabilities may also be imposed for serious violations.

The Labor Law of PRC (勞動法) and Labor Contract Law of PRC (勞動合同法)

The Labor Law (勞動法), promulgated by the Standing Committee of the National People's Congress on 5 June 1994 and effective as of 1 January 1995, and the Labor Contract Law of PRC (勞動合同法), promulgated by the Standing Committee of the National People's Congress on 29 June 2007 and effective as of 1 January 2008, provides that employers must enter into employment contracts with their employees based on the principles of equality, consent and agreement through consultation.

PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Employers must establish and effectively implement a system to ensure occupational safety and health, employee education on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Employers must also pay for their employees' social insurance premium.

Social Insurance Law of PRC (社會保險法)

Social insurance law, promulgated by the Standing Committee of the National People's Congress on 28 October 2010 and effective as of 1 July 2011, was formulated in accordance with the Constitution for purposes of regulating social insurance relationships, protecting the legitimate rights and interests of citizens participating in social insurance and eligible for social insurance benefits, enabling citizens to share the achievements of development, and promoting social harmony and stability.

According to the provisions of social insurance law, an employer shall pay the basic pension insurance premium, basic medical insurance premium, employment injury insurance premium, unemployment insurance premium, maternity insurance premium for its employees. An employer failing to make full payment of social insurance premium in due time shall be ordered by the social insurance premium collection agency to pay or make up the balance within a prescribed time limit, and as of date of overdue, be subject to a overdue fine of 0.05%; An employer failing to make the payment within the prescribed time limit shall be subject to a fine of one to three times of the amount of overdue premium imposed by the relevant administrative department.

Regulations on Management of Housing Provident Fund (住房公積金管理條例)

Regulations on Management of Housing Provident Fund, promulgated by the State Council of PRC on 3 April 1999, and revised on 24 March 2002. These Regulations are formulated for the purpose of strengthening the management of housing provident fund, safeguarding the lawful rights and interests of owners of housing provident fund, promoting the construction of houses in cities and towns, and improving housing standards of residents in cities and towns.

Pursuant to these regulations, an employer shall pay and deposit housing provident fund on schedule and in full, and may not be overdue in the payment and deposit or underpay the housing provident fund. Where, in violation of the provisions of these Regulations, an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

Customs Law of the People's Republic of China (海關法)

The Customs Law of the People's Republic of China (海關法), promulgated by the Standing Committee of the National People's Congress on 22 January 1987 and effective as of 1 July 1987, provides that all import goods from the time of arrival in the territory to the time of customs clearance and all export goods from the time of declaration to the time of departure from the territory shall be subject to customs control. The receiver of import goods and the sender of export goods shall make an accurate declaration and submit the import or export license and relevant papers to the China Customs for examination. In the absence of an import or export license, goods whose importation or exportation

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is restricted by the State shall not be released. Enterprises or individuals engaged in customs declarations without registration or qualification shall be subject to fines, with their illegal income confiscated.

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises (“**FIEs**”) in the PRC was governed by the FIE Tax Law promulgated on 9 April 1991, which became effective on 1 July 1991, and the related implementation rules. Under the FIE Tax Law, an FIE was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by laws or administrative regulations. The income tax on FIEs established in Special Economic Zones, foreign enterprises which had establishments or places in Special Economic Zones and were engaged in production or business operations, and FIEs of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on FIEs of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological development Zones are located, was levied at the reduced rate of 24%. FIEs of a production nature scheduled to operate for a period of not less than ten years were exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years.

Under the Law of the PRC on Enterprise Income Tax (the “**New Income Tax Law**”), the income tax for both PRC domestic enterprises and FIEs is levied at the same rate of 25% effective from 1 January 2008. The New Income Tax Law also provides that as regards important high-tech enterprises necessary to be supported by the state, the enterprise income tax shall be levied at the reduced tax rate of 15%.

Value-added tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) which became effective on January 1, 2009 and relevant rules, all units or individuals in the PRC engaged in the sale or importation of goods of goods and the provision of processing, repairs and replacement services, and the importation of goods are required to pay value-added tax (“**VAT**”). VAT payable is calculated on the basis of “output VAT” minus “input VAT”. Except otherwise provided, the VAT rate is 17%.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on VAT and Consumption Tax Policies for Exported Goods and Labor Services (Cai Shui [2012] No. 39) (《財政部、國家稅務總局關於出口貨物勞務增值稅和消費稅政策的通知》(財稅[2012]39號)) issued in May 2012, except otherwise provided, the VAT exemption and refund policy shall apply to the exported goods. The term “exported goods” as mentioned in this Notice means the goods exporting from China after customs declaration and sold to overseas entities or individuals, including exported self-produced goods and consigned exported goods.

PRC Wholly Foreign-owned Enterprises Law and its Implementation Regulation

According to the PRC Law on Wholly Foreign-owned enterprises (中華人民共和國外資企業法), which was promulgated on 12 April 1986 by the National People's Congress and amended on 31 October 2000 by the Standing Committee of the National People's Congress, the investments, profits, and other lawful rights and interests of a foreign investor are protected in the PRC. A foreign investor may remit abroad profits and other legal earnings from a wholly foreign-owned enterprise, as well as any remaining funds when the enterprise is liquidated.

According to the Implementation Rules on the PRC Law on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法實施細則) (“**Implementation Rules**”), which was promulgated on 12 December 1990 by the Ministry of Foreign Trade and Economic Cooperation and amended on 12 April 2001 by the State Council of the PRC, the articles of association of a wholly foreign-owned enterprises shall become effective upon the approval by the examining and approving authority and the same procedures shall apply whenever any amendments thereto are made. Any division, merger, or any significant change in the registered capital of a wholly foreign-owned enterprise shall be subject to approval by the examining and approving authority. The enterprise shall engage a PRC qualified auditor for a capital verification report. Upon approval by the examining and approving authority, registration shall be made with the Administrative Bureau for Industry and Commerce.

According to the Implementation Rules and relevant foreign exchange regulations, upon due payment of the capital contribution, foreign investors are entitled to dividends remitted overseas after board's approval so long as the enterprise has duly paid its enterprise income tax and provided for relevant reserve fund.

Foreign Currency Administration Rules (外匯管理條例)

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (外匯管理條例), which was issued by the State Council. The Rules took effect on 29 January 1996 and was subsequently amended on 14 January 1997 and 1 August 2008. Under these rules, foreign-invested enterprises in the PRC may purchase foreign exchange for trade and services-related foreign exchange transactions without the approval of State Administration of Foreign Exchange (“**SAFE**”) by providing commercial documents evidencing such transactions. Subject to a cap approved by SAFE, they may also retain foreign exchange to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transactions involving direct investment, loans, and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

According to the SAFE's Circular Regarding Foreign Exchange Control For Fundraising And Offshore-Domestic Investments By Domestic Residents Through Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“**Circular 75**”), which took effect as of 1 November 2005, an overseas special purpose vehicle (“**SPV**”) is an offshore enterprise directly established or indirectly controlled by a domestic resident legal person or domestic resident natural person for the purpose of undertaking equity financing (including convertible debt financing) abroad with the enterprise assets or rights and interests it/he holds inside the PRC. Before establishing or controlling an overseas SPV, a domestic resident shall apply to the local branch or department of foreign exchange administration for the foreign exchange registration of offshore investment. Where a domestic resident injects the assets or equity interests of a domestic enterprise it

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owns into a SPV, or undertakes equity financing abroad after injecting assets or equity interests into a SPV, it shall register the alteration of foreign exchange of overseas investment in respect of the net assets equities of the SPV it holds and the variations thereof.

Mr. Yu has applied to SAFE for the foreign exchange registration regarding the establishment of overseas SPV in accordance with Circular 75.

Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定)

On 8 August 2006, MOFCOM, along with State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration of Industry and Commerce, China Securities Regulatory Commission (“CSRC”) and SAFE issued the “Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors” (the “**New M&A Rules**”), and the same became effective on 8 September 2006.

The New M&A Rules mainly regulate the practice whereby a foreign investor acquires the equity interests of a shareholder of a domestic enterprise not invested by foreign investors (“**Domestic Company**”) or subscribes for the capital increase of a Domestic Company, so as to convert and re-establish the Domestic Company as a foreign-invested enterprise. (“**Equity Merger and Acquisition**”); and the practice whereby a foreign investor sets up a foreign invested enterprise and acquires by agreement and operates the assets of domestic enterprises through the enterprise established, or the practice whereby a foreign investor acquires the assets of domestic enterprises by agreement and sets up a foreign invested enterprise with such assets acquired to operate the assets (“**Assets Merger and Acquisition**”).

According to Article 11 of the New M&A Rules, if a domestic natural person, in the name of a company he/she legally established or controlled outside the PRC, merges with a Domestic Company affiliated thereto, such merger and acquisition shall be subject to the approval of the MOFCOM. Article 15 provides that the parties to a merger and acquisition shall explain whether there is any affiliated relationship among themselves. Article 39 defines a special purpose vehicle (the “**Vehicle**”) as an overseas company directly or indirectly controlled by a Domestic Company or domestic natural person for the purpose of the overseas listing of the interests actually held by such Domestic Company or natural person in a Domestic Company. Article 40 requires that overseas listing of a Vehicle shall be subject to the approval of the securities regulatory authority under the State Council.

Because Ludao (PRC) has been a foreign-invested enterprise since its establishment, it is not the Domestic Company within the meaning of the New M&A Rules and the New M&A Rules do not apply to the overseas listing of the Company.

HISTORY AND DEVELOPMENT

INTRODUCTION

Our history can be traced back to 23 August 2002 when our major operating subsidiary, Ludao (PRC), was established in the PRC. The equity interest of Ludao (PRC) was owned as to 51% by Hong Kong Yi Zhou and 49% by Sanmen County Yinli Plastic Factory* (三門縣尹力塑料廠) (“**Yinli Plastic Factory**”). Hong Kong Yi Zhou was held by Mr. Yu and Ms. Pan Yili (潘伊莉) as to 90% and 10% respectively with Ms. Pan Yili (潘伊莉) holding 10% interest in Hong Kong Yi Zhou on trust for Mr. Yu. Mr. Yu set up Hong Kong Yi Zhou with his own funds from his savings. Yinli Plastic Factory was owned by Ms. Yu Lijun (虞麗君), the elder sister of Mr. Yu.

Ludao (PRC) was set up as a sino-foreign joint venture enterprise to capture the tax benefit for foreign investment enterprise of being exempted from enterprise income tax for 2 years since the year that is profit-making and afterwards enjoying a 50% reduction of tax rate for the subsequent 3 years. At the time of its establishment, Ludao (PRC) was engaged in the production of aerosol products on CMS basis and the products were exported to overseas customers.

In April 2008, Ludao (PRC) became a wholly foreign owned enterprise upon its entire equity interest having been acquired by Ludao (BVI) from the then shareholders of Ludao (PRC). Ludao (BVI) was and is a wholly owned subsidiary of Ludao Investments, which was and is in turn wholly owned by Mr. Yu. Since then, Mr. Yu became the sole ultimate beneficial owner of Ludao (PRC).

In July 2008, Neland was introduced to us by Mr. Yu as an investor. Neland was and is a wholly owned subsidiary of China Flavors, which itself and its subsidiaries (“**China Flavors Group**”) had been a supplier of flavors and fragrances material to our Group. China Flavors is a company listed on the Main Board with corporate governance experience in compliance with the Listing Rules. Also, to our best knowledge and belief, China Flavors Group has placed much emphasis and efforts on the research and development of flavors and fragrances, which are important ingredients of our products. We anticipated that China Flavors Group could therefore advise and provide assistance to us so as to enhance the then technology level of our Group in handling or applying flavors and fragrances to our products.

A Subscription Agreement was entered into by Neland, Ludao (BVI), Ludao (PRC) and Mr. Yu on 14 July 2008 pursuant to which, Neland subscribed for 11 new shares in Ludao (BVI) at the consideration of RMB26.00 million (equivalent to approximately HK\$29.71 million, according to the then exchange rate) and became interested in 9.9% shareholding interest in Ludao (BVI). In anticipation of the investment of Neland in our Group would bring synergy as disclosed above to enhance the technology of our Group, Mr. Yu, Ludao (PRC) and Ludao (BVI) (collectively, the “**Guarantee Parties**”) gave warranties in favour of Neland as to the turnover and net profit of Ludao (PRC) (collectively, “**Profit Guarantee**”) in respect of 3 years after completion of Neland’s subscription of new shares in Ludao (BVI). Ludao (PRC) also guaranteed to source all flavors and fragrances raw material required in its production process from China Flavors Group so to make China Flavors Group as our Group’s sole supplier of flavors and fragrances (the “**Purchase Guarantee**”). Mr. Yu himself did not make the Purchase Guarantee, therefore Mr. Yu does not owe any personal obligation to Neland in respect of the Purchase Guarantee. The Subscription Agreement was conducted under normal commercial terms and the consideration for subscription was arrived at on an arm’s length basis with reference to the total asset value of Ludao (BVI), the Profit Guarantee and the Purchase Guarantee. Neland’s subscription was completed and Neland became a shareholder of Ludao (BVI) on 16 July 2008.

HISTORY AND DEVELOPMENT

In respect of the Profit Guarantee, the amount of guaranteed turnover of Ludao (PRC) was approximately RMB120.00 million, RMB156.00 million and RMB202.80 million, whereas the amount of net profit warranted was approximately RMB16.00 million, RMB20.80 million and RMB27.04 million respectively for the 3 years after completion of Neland's subscription. According to the Subscription Agreement, if Ludao (PRC) could not meet the Profit Guarantee in any of the 3 relevant years, Mr. Yu shall compensate Neland in cash of the shortfall amount. As such, the Subscription Agreement did not contain any provision pursuant to which Ludao (BVI) or Ludao (PRC) will be held liable to compensate Neland.

Due to the global economic situation at the material time, the Profit Guarantee regarding Ludao (PRC) after the completion of Neland's subscription could not be met. According to the Subscription Agreement, Mr. Yu shall therefore compensate Neland of the shortfall amount of the guaranteed net profit of Ludao (PRC). The actual amount of shortfall was calculated in the sum of approximately RMB13.17 million. Also, the Purchase Guarantee was not met as we did not exclusively source all flavors and fragrances raw materials from China Flavors Group. The Subscription Agreement did not contain any clause which required compensation from our Group.

We have been sourcing flavors and fragrances from the China Flavors Group after the Subscription Agreement, albeit not on an exclusive basis, because the price of flavors and fragrances supplied by the China Flavors Group was relatively high. We confirm that the purchase price of the flavors and fragrances from China Flavors Group was determined on an arm's length basis. The amount of purchases from China Flavors Group for the three years ended 31 December 2010, 2011 and 2012 was approximately RMB1.98 million, RMB2.14 million and RMB5.08 million respectively, which represented approximately 1.70%, 1.31% and 2.93% of our total cost of sales and represented approximately 62.08%, 45.31% and 84.51% of our total fragrance purchased for the three years ended 31 December 2010, 2011 and 2012. There was a drop in the percentage figures in respect of the amount of purchases from China Flavors Group for the year ended 31 December 2011 because we increased our purchase of flavors and fragrances from other suppliers in light of the higher price of supplies from China Flavors Group. However, the quality of flavors and fragrances from other suppliers are lower than that of China Flavors Group, we returned to purchase from China Flavors Group and increased our purchases from the same in 2012, which resulted in the percentage figures in respect of the amount of purchases from China Flavors Group for the year ended 31 December 2012 surged.

The Subscription Agreement had been supplemented by three supplemental agreements respectively dated 20 June 2012, 29 June 2012 and 15 October 2012. Pursuant to which, Neland had agreed, among others, to irrevocably and unconditionally waive its claim against and release the Guarantee Parties from all obligations under Profit Guarantee and the Purchase Guarantee. The granting of waivers by Neland is of mutual beneficial to all relevant parties in the way that insofar as the Purchase Guarantee is concerned, our Group was given flexibility in sourcing suppliers of flavors and fragrances, which would benefit our Group and facilitate our production. On the other hand, in order to provide incentive to Mr. Yu to support our Group's Listing such that Neland could realize its investment in our Group at a more liquid market after the Listing, Neland agreed to waive the Guarantee Parties' liabilities under the Profit Guarantee. The Listing serves as a quick and effective means of exit for Neland's investment in our Group as Neland can enjoy the potential growth in value of our Group after the listing status is obtained. At the time when the Subscription Agreement was entered into in 2008, the parties were in contemplation of the Listing and thus the Profit Guarantee was limited to 3 years. Therefore, if the Listing is not proceeded with after the period of the Profit Guarantee has expired,

HISTORY AND DEVELOPMENT

Neland would remain a minority shareholder with no control in our Group and its initial investment in our Group could only be recovered in several couple of years by receiving dividends from our Group. As both Ludao (BVI) and Ludao (PRC) were not the indemnifying parties under the Subscription Agreement dated 14 July 2008, whether or not the Profit Guarantee could be met would not have any financial impact on our Group.

No claim was ever made against us in relation to the Profit Guarantee and the Purchase Guarantee. Further, taking into account the fact that we have established and maintained a good business relationship with China Flavors Group since 2004, and our purchases from China Flavors Group for the three years ended 31 December 2010, 2011 and 2012 were significant, which had contributed to approximately 62.08%, 45.31% and 84.51% of our total fragrance purchased in 2010, 2011 and 2012 respectively, and Mr. Yu's personal guarantee in favour of us in case of there is any claim made by the China Flavors Group against us, and the verbal and written confirmation from China Flavors Group that it would not make any claim against us regarding our breach of the Subscription Agreement, we conclude that no provision should be made for in respect of compensation payable by us to China Flavors Group for the three years ended 31 December 2010, 2011 and 2012 respectively. Our Directors expect that we will continue to source flavors and fragrances from China Flavors Group due to the quality of the flavors and fragrances supplied by China Flavors Group despite the price of which is expected to be relatively higher than those from other suppliers.

The subscription funds obtained from Neland was applied to upgrade our then existing production lines and to purchase additional 5 production lines. Also, part of the subscription funds was used for marketing purpose and as general working capital of our Group. With the strengthened production capacity and marketing resources, our product range expanded to cover household and auto care products, insecticides and personal care products. In 2008, we launched our own brands of "Green Island", "Ludao" ("綠島"), "JIERJIA" ("吉爾佳") and "EAGLEIN KING" ("鷹王") and started to develop the domestic market to sell our products in the PRC.

As at the Latest Practicable Date, we were one of the largest manufacturers of aerosol products in the PRC with 10 production lines for aerosol products and 1 production line for non-aerosol products. Our production lines are capable of manufacturing approximately 92.43 million cans of aerosol products annually. We offer products under 4 major categories, namely: (i) household and auto care products; (ii) air-fresheners; (iii) personal care products; and (iv) insecticides which are sold domestically and overseas.

The following are the important milestones in the development of the business of our Group to date:

<u>Year</u>	<u>Event</u>
2006	Accredited as a trustworthy unit in The 10th Trustworthy Unit for Consumers Award (2004–2005)* (第十屆消費者信得過單位 (2004–2005)) by Consumer's Association of Sanmen County* (三門縣消費者協會)
2008	Launched our own branded products Accredited as a trustworthy unit in The 12th Trustworthy Unit for Consumers Award* (三門縣第十二屆消費者信得過單位) by Consumer Rights' Protection Association of Sanmen County* (三門縣消費者權益保護委員會)

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Year	Event
	Became a member of the Aerosol Committee of China Packaging Federation* (中國包裝聯合會氣霧劑專業委員會)
2009	Obtained the ISO9001:2008 Quality Management System Certificate issued by Shanghai Ingeer Certification Assessment Services Co., Ltd. (上海英格爾認證有限公司)
2010	Accredited as Zhejiang Technological Small Medium Enterprise* (浙江省科技型中小企業) by Zhejiang Provincial Science and Technology Department* (浙江省科學技術廳)
	Obtained High and New Technology Enterprise Certificate* (高新技術企業證書) issued by Zhejiang Provincial Science and Technology Department* (浙江省科學技術廳), Zhejiang Provincial Financial Department* (浙江省財政廳), Zhejiang Provincial State Administration of Taxation* (浙江省國家稅務局) and Zhejiang Provincial Local Taxation Bureau* (浙江省地方稅務局)
	The Group's air-freshener was awarded Taizhou's Famous Brand Product by Taizhou Famous Brand Product Accreditation Association* (台州名牌產品認可委員會)
2011	Obtained the ISO14001:2004 Environmental Management System Certificate issued by Shanghai Ingeer Certification Assessment Services Co., Ltd. (上海英格爾認證有限公司)
	The Group's product, silver-nano anti-bacteria household cleaning detergent* (納米銀抗菌家用清洗劑), was granted Innovation Award of the PRC Aerosol Industry* (中國氣霧劑行業創新獎) by Aerosol Committee of China Packaging Federation* (中國包裝聯合會氣霧劑專業委員會) and was granted Scientific and Technological Achievements Registration Certificate* (科學技術成果登記證書) by Zhejiang Provincial Science Department* (浙江省科技廳)
	The Group's air-purifier and freshener* (空氣淨化清新劑) was granted Scientific and Technological Achievements Registration Certificate* (科學技術成果登記證書) by Zhejiang Provincial Science Department* (浙江省科技廳)
	Accredited as High and New Technology Research and Development Centre at City Level* (市級高新技術研究開發中心) in respect of aerosol products by Taizhou City Science and Technology Bureau* (台州市科學技術局)
	Our brand "Green Island", "Ludao" ("綠島") was awarded Taizhou City Famous Trademark* (台州市著名商標) by Taizhou City Administration of Industry and Commerce* (台州市工商行政管理局)
2012	Obtained the ISO9001:2008 Quality Management System Certificate issued by Shanghai Ingeer Certification Assessment Services Co., Ltd. (上海英格爾認證有限公司)
	Obtained Taizhou City Scientific and Technological Improvement Award* (台州市科學技術進步獎) from Taizhou City People's Government* (台州市人民政府)

HISTORY AND DEVELOPMENT

CORPORATE HISTORY

The Company

The Company was incorporated in the name of China Ludao Holdings Limited (中國綠島控股有限公司) in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 May 2012 with an authorized share capital of HK\$0.39 million divided into 39,000,000 Shares of HK\$0.01 each, of which 1 Share was allotted and issued fully paid to Reid Services Limited at par, and was transferred to Ludao Investments at par on 25 May 2012. On the same date, Ludao Investments and Neland subscribed for 900 Shares and 99 Shares of the Company respectively at par.

On 17 July 2012, the name of the Company was changed to China Ludao Technology Company Limited (中國綠島科技有限公司).

On 16 September 2013, the Company issued and allotted 8,109 Shares and 891 Shares (all credited as fully paid) to Ludao Investments and Neland respectively pursuant to the Share Swap Agreement, as consideration for the acquisition by the Company of the entire issued share capital of Ludao (BVI).

As at the Latest Practicable Date, the Company has 2 subsidiaries, namely Ludao (BVI) and Ludao (PRC), details of which are set out below.

Ludao (BVI)

Ludao (BVI) was incorporated in the BVI on 18 December 2007. As at the date of incorporation, it was authorised to issue up to a maximum of 50,000 shares of a single class with a par value US\$1.00 each, of which 100 shares were issued and allotted at par to Ludao Investments which was in turn wholly owned by Mr. Yu.

On 14 July 2008, Neland, a wholly owned subsidiary of China Flavors, entered into the Subscription Agreement, pursuant to which Ludao (BVI) issued 11 new shares to Neland at a consideration of RMB26.00 million (equivalent to approximately HK\$29.71 million, according to the then exchange rate). As a result of such subscription, Ludao Investments and Neland respectively held 90.1% and 9.9% equity interest in Ludao (BVI).

As part of the reorganisation, on 16 September 2013, the Company, Ludao Investments and Neland entered into the Share Swap Agreement, pursuant to which Ludao Investments and Neland as vendors respectively transferred their 100 shares and 11 shares of Ludao (BVI) to the Company, representing the entire issued share capital of Ludao (BVI), in consideration of the Company allotting and issuing a total of 9,000 new Shares credited as fully paid, of which Ludao Investments was allotted and issued 8,109 new Shares whereas Neland was allotted and issued 891 Shares. As a result of such transfer and allotment, the Company became the sole shareholder of Ludao (BVI). Details of the Reorganisation are described under the paragraph headed “Corporate Reorganisation” in Appendix V of this prospectus.

As at the Latest Practicable Date, Ludao (BVI) was an investment holding company for holding the entire equity interest of Ludao (PRC).

HISTORY AND DEVELOPMENT

Ludao (PRC)

Ludao (PRC) is the major operating subsidiary of our Group. It was established in the PRC on 23 August 2002 as a sino foreign joint venture with a registered capital of US\$0.19 million. The equity interest of Ludao (PRC) was owned as to 49% by Yinli Plastic Factory and 51% by Hong Kong Yi Zhou. At that time, Yinli Plastic Factory was owned by Ms. Yu Lijun (虞麗君), whereas Hong Kong Yi Zhou was held as to 90% by Mr. Yu and 10% by Ms. Pan Yili (潘伊莉). The said 10% shareholding interest in Hong Kong Yi Zhou was held by Ms. Pan Yili (潘伊莉) on trust for Mr. Yu. Ms. Pan Yili (潘伊莉) executed a deed of confirmation and renunciation in favour of Mr. Yu on 26 August 2012 to confirm the trust arrangement.

On 10 October 2002, to save administration costs in maintaining a company in Hong Kong and to retain the status of sino-foreign joint venture enterprise of Ludao (PRC), Mr. Yu, as beneficial owner, procured Hong Kong Yi Zhou to transfer its 51% equity interest in Ludao (PRC) at the consideration of approximately HK\$0.76 million to Mr. Chan Mao Sam (陳謀深), a Macau citizen, who held the interest in Ludao (PRC) on trust for and on behalf of Mr. Yu. The consideration was determined by reference to the then registered capital of Ludao (PRC). Mr. Chan Mao Sam (陳謀深) executed a deed of confirmation and renunciation in favour of Mr. Yu on 2 August 2012 to confirm the trust arrangement.

Also on 10 October 2002, the then directors of Ludao (PRC) resolved that the currency of the registered capital of Ludao (PRC) be changed from USD to HKD. As a result, the registered capital of Ludao (PRC) was changed from US\$0.19 million to HK\$1.48 million of which 51% was legally held by Mr. Chan Mao Sam (陳謀深) and 49% by Yinli Plastic Factory.

On 10 March 2003, in contemplation of conducting other business through Yinli Plastic Factory, Ms. Yu Lijun (虞麗君) procured Yinli Plastic Factory to enter into agreement with herself to transfer its 49% equity interest in Ludao (PRC) to herself at the consideration of approximately HK\$0.73 million. The consideration was determined by reference to the then registered capital of Ludao (PRC). As a result of such share transfer, Ludao (PRC) was legally owned as to 51% by Mr. Chan Mao Sam (陳謀深) and 49% by Ms. Yu Lijun (虞麗君).

On the same date, the then directors of Ludao (PRC) resolved that the duration of the joint venture be increased from 15 years to 50 years.

On 20 March 2004, Ms. Yu Lijun (虞麗君) entered into agreement with Sanmen County Yili Plastic Factory* (三門縣億力塑料廠) (“**Yili Factory**”) to transfer 49% interest in Ludao (PRC) at the consideration of approximately HK\$0.73 million to Yili Factory. The consideration was determined by reference to the then registered capital of Ludao (PRC). Yili Factory is a company legally and beneficially owned by Ms. Yu Lijun (虞麗君), the transfer was made for reason that she preferred to have the interest of Ludao (PRC) held through a corporate vehicle. As a result of such share transfer, Ludao (PRC) was legally owned as to 51% by Mr. Chan Mao Sam (陳謀深) and 49% by Yili Factory.

HISTORY AND DEVELOPMENT

On 16 November 2004, the registered capital of Ludao (PRC) was increased by HK\$3.52 million from HK\$1.48 million to HK\$5.00 million of which approximately HK\$1.73 million was contributed by Yili Factory and approximately HK\$1.80 million was contributed by Mr. Chan Mao Sam (陳謀深). The source of funding of the aforesaid contribution by Mr. Chan Mao Sam (陳謀深) was from Mr. Yu, being the beneficial owner of the relevant equity interest of Ludao (PRC).

On 15 March 2008, Mr. Chan Mao Sam (陳謀深) entered into agreement with Ludao (BVI) to transfer his equity interest in Ludao (PRC) to Ludao (BVI) at a consideration of HK\$2.55 million. On the same date, Yili Factory realized its investment in Ludao (PRC) by transferring its 49% equity interest in Ludao (PRC) to Ludao (BVI) at the consideration of HK\$2.45 million. The considerations were determined by reference to the then registered capital of Ludao (PRC). Ludao (BVI) is a company beneficially wholly owned by Mr. Yu. As a result of such transfers, Ludao (PRC) became a wholly owned subsidiary of Ludao (BVI) and Ludao (PRC) was accordingly transformed from a sino-foreign joint venture to a wholly foreign owned enterprise.

On 10 July 2008, the then directors of Ludao (PRC) resolved that the registered capital of Ludao (PRC) be increased by HK\$45.00 million from HK\$5.00 million to HK\$50.00 million. However, up to March 2011, only HK\$41.35 million was paid up as the registered capital. Hence, the shareholder of Ludao (PRC) accordingly resolved to reduce the registered capital from HK\$50.00 million to HK\$41.35 million, so that the amount of paid up capital was equivalent to the amount of registered capital. Such change in the registered capital was completed on 10 June 2011.

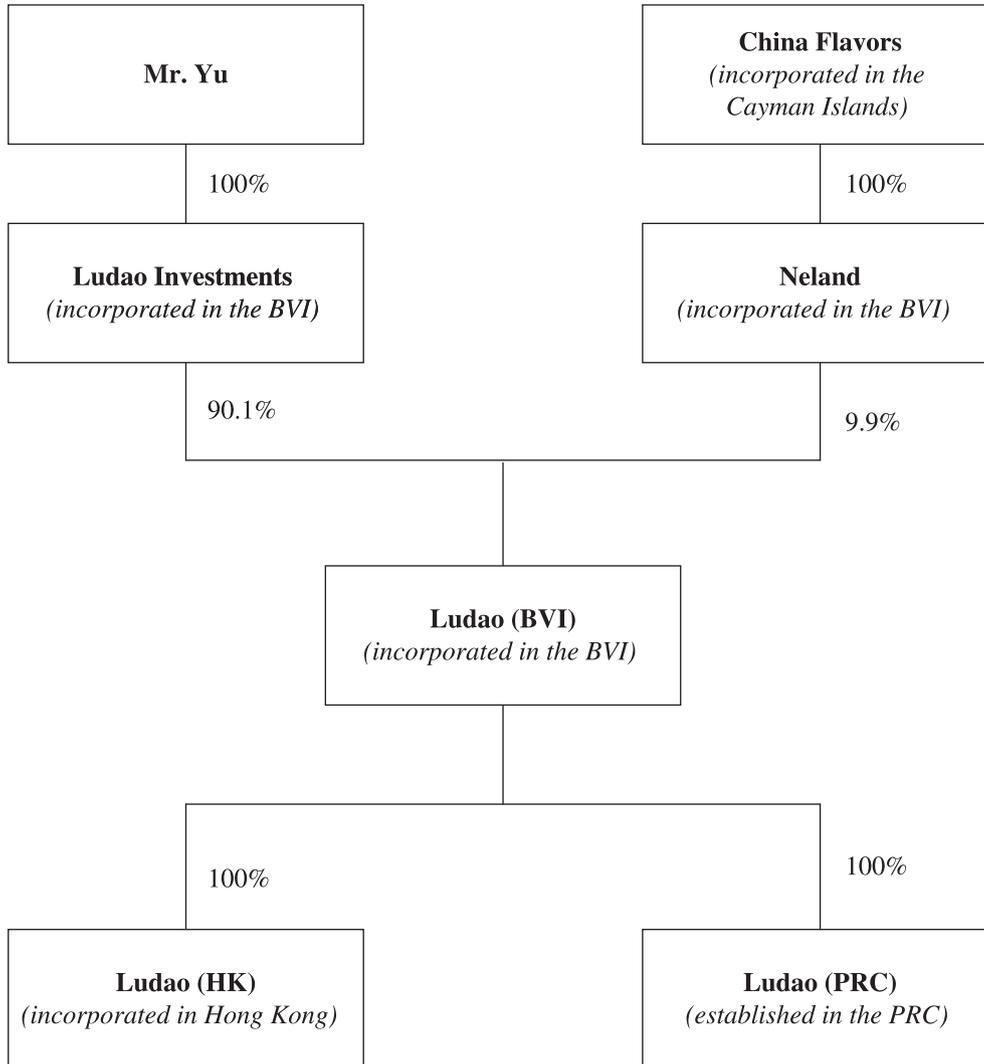
On 15 July 2011, the name of Ludao (PRC) was changed to Zhejiang Ludao Technology Co., Ltd. (浙江綠島科技有限公司).

As at the Latest Practicable Date, Ludao (PRC) was a wholly owned subsidiary of Ludao (BVI). Ludao (PRC) was engaged in the research and development, manufacture and sale of aerosol and related products.

HISTORY AND DEVELOPMENT

CORPORATE STRUCTURE

The following diagram illustrates the structure of our Group immediately prior to the Reorganisation:



HISTORY AND DEVELOPMENT

REORGANISATION

The companies comprising our Group underwent the Reorganisation in preparation for the Listing, pursuant to which our Company became the holding company of our Group. The Reorganisation included the following steps:

- (a) On 25 May 2012, our Company was duly incorporated in the Cayman Islands, with 1 Share allotted and issued fully paid to Reid Services Limited at par and the same was transferred to Ludao Investments. On the same date, Ludao Investments and Neland subscribed for 900 Shares and 99 Shares of the Company respectively at par.
- (b) On 21 November 2012, Ludao (BVI) disposed of 1 share of HK\$1.00 each of Ludao (HK), which represents the entire issued share capital of Ludao (HK), to Mr. Yu at the consideration of HK\$1, which was equivalent to the par value of the share. Ludao (HK) was incorporated in Hong Kong on 6 March 2008 and it has not carried on business and remained inactive since incorporation. To streamline the structure of the Group, Ludao (HK) was disposed of by Ludao (BVI) as a result of which Ludao (HK) ceased to be a member of the Group.
- (c) On 16 September 2013, our Company issued and allotted 8,109 Shares and 891 Shares (all credited as fully paid) to Ludao Investments and Neland respectively pursuant to the Share Swap Agreement, as consideration for the acquisition by our Company of the entire issued share capital of Ludao (BVI) from Ludao Investments and Neland.

HISTORY AND DEVELOPMENT

The following diagram illustrates the structure of our Group after the Reorganisation and immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme).



Note:

- (1) If the Offer Size Adjustment Option is fully exercised, the shareholding of Ludao Investments, Neland and the Public would be approximately 65.13%, 7.16%, and 27.71% respectively.

OVERVIEW

We are a leading manufacturer of aerosol products in the PRC. According to the CRI Report, we have been among the top five aerosol product manufacturers in the PRC since 2010 in terms of production volume.

We are principally engaged in the research and development, manufacture and sale of aerosol products (i) on CMS basis, and (ii) on OBM basis under our own brands, including “Green Island”, “Ludao” (“綠島”), “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”). In addition to aerosol products, we also manufacture non-aerosol products as our non-core products, mainly liquid laundry detergents, solid/liquid air-fresheners and mosquito-repellent incenses so as to complement our product portfolio and increase our revenue-generators. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, the sales of these non-core products accounted for approximately 2.17%, 1.38%, 6.61% and 14.33% of our total revenue respectively.

Our products can be broadly classified into four categories, namely: (i) household and auto care products, (ii) air-fresheners, (iii) personal care products, and (iv) insecticides.

To broaden our customer base by capturing different types of target customers, we provide multiple product series for each of the above product categories. Hence, our product portfolio can cater to the needs and demands of different customers.

Our CMS business

Our CMS business constituted our major business and source of revenue during the Track Record Period. Sales of our CMS products for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 amounted to approximately RMB138.69 million, RMB196.04 million, RMB190.64 million and RMB44.60 million respectively, representing approximately 91.13%, 92.18%, 83.30% and 82.07% of our revenue respectively.

Up to the Latest Practicable Date, our CMS products were mainly sold to (1) outsourcing agent companies of overseas brand owners; and (2) export and trading companies, which export our CMS products to overseas countries. Our major export destinations are the US and Europe.

Post-sale warranty policy of CMS products

Generally, our post-sale warranty policy of CMS products is to grant 2 years’ warranty on the insecticide products and 3 years’ warranty for the rest of our CMS products from the date of production, although sometimes the brand-owners of our CMS products may decide to give consumers a shorter warranty period. Such warranty period is stated in the packaging of each CMS product. Further, under Agreement C, we expressly agree to provide a warranty period of two years for our insecticide to be supplied thereunder. Save for the aforesaid, there is no other post-sale warranty policy of CMS products for our Group.

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Through years of smooth cooperation, we have cultivated strong and reliable business relationships with most of our major CMS customers. Our Directors believe that, in view of the long-term mutually beneficial cooperation with our major CMS customers in the past, there should not be any difficulty for us to continue our business relationships with them in the future. Further, our Directors believe that we are well-positioned to grasp the changing trends and customer preferences in the aerosol market as we produce a significant amount of exported products each year on CMS basis, laying foundation for the establishment of our OBM business.

Our OBM business

Leveraging upon our experience in the CMS business, we have commenced our OBM business by offering aerosol and related products under our own brands of “Green Island”, “Ludao” (“綠島”) since 2008 for sale within the PRC. Subsequently, we have also developed our other brands, namely, “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”). We generally sell our OBM products through our network of distributors in the PRC. As at the Latest Practicable Date, we had a total of 304 Distributors across 29 provinces, autonomous regions and municipalities in the PRC. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our OBM sales accounted for approximately 8.87%, 7.82%, 16.70% and 17.93% of our total revenue respectively.

Post-sale warranty policy of OBM products

Generally, our post-sale warranty policy of OBM products is to grant 2-year warranty on the insecticide products and 3-year warranty for the rest of the OBM products from the date of production. Such warranty periods are stated in the packaging of the OBM products. Save for the warranty period stated in the packaging of the OBM, there is no other post-sale warranty policy of OBM products for our Group.

In the years to come, we plan to put more emphasis on the expansion of our OBM business in the PRC, as our Directors believe that building up our own brands is conducive to the long-term development of our Group and will provide us with a competitive edge in capturing business opportunities in the market of aerosol products in the PRC market as we are able to leverage on the management resources and local relationships of our distributors in the PRC.

Our production facilities and production capacity

During the Track Record Period, we manufactured all our products at our Feng Keng Production Plant, where we have 11 blocks in total for production and office use, with a gross floor area of approximately 20,922 sq.m. For the year ended 31 December 2012, we had an annual production capacity of approximately 92.43 million cans of aerosol products and approximately 6.50 million units of non-aerosol products. In response to the growing market needs for aerosol products, especially aerosol products for personal and household use, we have plans for setting up a new production plant, which, upon completion, is expected to increase our annual production capacity of aerosol products to approximately 200 million cans. For further details, please refer to the paragraphs headed “Business — Business Strategies” of this prospectus.

Growth during the Track Record Period

We experienced significant growth in our revenue and net profit during the Track Record Period. Our total revenue for the three years ended 31 December 2010, 2011 and 2012 was approximately RMB152.19 million, RMB212.68 million and RMB228.85 million respectively, representing a CAGR of approximately 22.63%. Our net profit for the three years ended 31 December 2010, 2011 and 2012 was approximately RMB16.01 million, RMB22.51 million and RMB23.81 million respectively, representing a CAGR of approximately 21.95%.

Our total revenue for the three months ended 31 March 2012 and 2013 was approximately RMB45.39 million and RMB54.34 million respectively, representing an increase of approximately 19.72%. Our net profit for the three months ended 31 March 2012 and 2013 was approximately RMB2.65 million and RMB4.35 million respectively, representing an increase of approximately 64.15%.

COMPETITIVE STRENGTHS

Our Directors believe that due to our competitive strengths as follows, we are well positioned in the aerosol industry:

Our competitive business scale to capture the growing market share for aerosol products

The global market for aerosol products has been growing rapidly in recent years. According to the CRI Report, during 2008 to 2012, the total sales volume of aerosol products in the global market had increased by a CAGR of 6.9%. It is expected that the above momentum will continue in the global aerosol market in the coming years. Under such circumstances, our Directors believe that a competitive business scale featuring high production capacity is crucial for an aerosol product manufacturer to capture the growing market.

In accordance with the CRI Report, we have been the fifth largest supplier of aerosol products in the PRC in terms of production volume since 2010. We manufacture our aerosol products at our Feng Keng Production Plant, where we have a total of 11 blocks with a gross floor area of approximately 20,922 sq.m. for production or office use. For the year ended 31 December 2012, we operated with a total of ten production lines for aerosol products (collectively “aerosol production lines”) and one production line for non-aerosol products, with an annual production capacity of approximately 92.43 million cans of aerosol products and approximately 6.50 million units of non-aerosol products respectively.

Our Directors believe that our production capacity allows us to swiftly satisfy high quantum orders of our products, and thereby puts us in a better position to cope with the increasing market demand for aerosol products and reap the benefits thereof.

Stringent quality control standards and outstanding product quality

Our Group perceived that the quality and reliability of our products are crucial in upholding the reputation of our Group. We have established comprehensive quality control procedures including, amongst others, inspection of raw materials, closely monitoring of the specifications along the production process, testing the quality of finished products and granting of post-sale warranty period to customers. For further details, please refer to the paragraphs headed “Business — Production — Quality assurance” of this prospectus. The Directors confirm that, during the Track Record Period, there had been no material complaint from our customers or consumers regarding the quality of our products.

We have obtained various certifications, including ISO9001:2008 and ISO14001:2004, for our quality and environmental management system. Our current ISO9001:2008 certificate was obtained in October 2012 and will remain valid up to October 2015; our current ISO14001:2004 certificate was obtained in December 2011 and will remain valid up to November 2014. Further, we have been granted with various awards recognizing our outstanding product quality. Please refer to the paragraphs headed “Business — Awards” of this prospectus for further details.

Stable business relationship with existing CMS customers

We manufacture aerosol products on a CMS basis mainly for (1) outsourcing agent companies of overseas brand owners; and (2) export and trading companies, which export our CMS products to overseas countries. Our major export destinations are the US and Europe.

We believe that we have established strong relationships with our existing CMS customers. In 2011, approximately 76.59% of our revenue from CMS business were contributed by repeat CMS customers. We believe that our good relationship with our CMS customers allow us to maintain our competitive edge against our competitors. Further, this also provides us with the chance to interact and discuss with them, allowing us to keep abreast of the latest trends of aerosol products and acquire knowledge needed to design products with market appeal for our further business development.

Extensive distribution network for our OBM products

We generally sell our OBM products through a network of distributors located in the PRC. As at the Latest Practicable Date, our distribution network had achieved a wide market coverage, comprising 304 Distributors across 29 provinces, autonomous regions and municipalities in the PRC.

Our Directors believe that the wide coverage of our distribution network in the PRC enables us to reach out to a broader customer base, and thereby effectively establishes our market presence and brand awareness in the PRC. Additionally, the distribution network also allows us to rely on our Distributors to tailor-made distribution plans for our products based on their knowledge and resources of the local markets.

Diversified product portfolio

Our products can be principally classified into four categories, namely: (i) household and auto care products, (ii) air-fresheners, (iii) personal care products, and (iv) insecticides. In order to capture different types of target customers, we offer multiple product series under each of these product categories. For instance, our products under the category of air-fresheners mainly include the two product series aerosol air-fresheners and non-aerosol solid/liquid air-fresheners. For further details regarding the composition of our product portfolio, please refer to the paragraphs headed “Business — Our Products” of this prospectus.

We believe that our diverse product portfolio allows us to optimise our production capacity and gives us the flexibility to cope with market changes, thereby reduces our reliance on single product type and broadens our customer base and source of revenue.

Our leading role in the development of industry standards of aerosol products in the PRC

During the Track Record Period, our Group was a standing member of the Aerosol Committee of China Packaging Federation* (中國包裝聯合會氣霧劑專業委員會) and had been participating in the drafting of a number of industry standards in relation to the manufacturing of aerosol products in the PRC, such as the Test Method for Aerosol Products GB/T14449-2008* (氣霧劑產品測試方法GB/T14449-2008) as approved and promulgated by the Standardisation Administration of the People’s Republic of China* (國家標準化管理委員會) in 2008; and Guidelines on Basic Safety Requirements in Aerosol Manufacturing* (氣霧劑安全生產規程), which had been approved and promulgated by State Administration of Work Safety* (國家安全生產監督管理總局) in 2011.

We believe that our participation in the drafting of relevant industry standards for the PRC aerosol industry puts us in an advantageous position to understand and interpret the implications of such standards. In addition, based on the fact that industry standards drafted by us are approved by State Administration of Work Safety* (國家安全生產監督管理總局), our Directors believe this reflects the authority’s recognition on our knowledge and standard in the production of aerosol products.

Experienced management team

We have a management team with extensive experience and knowledge in corporate management and/or daily chemical product industry in the PRC. Please refer to the section headed “Directors, Senior Management and Staff” in this prospectus for further details of the experience and qualification of our Directors and senior management.

We believe that, with their commitment, experience and knowledge, our management team had played a crucial role in our Group’s achievements during the Track Record Period, and will continue to adopt appropriate business plans and strategies in respect of production, marketing and sales, etc., to ensure further growth of our business.

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Strong research and development ability

Our Group places strong emphasis on research and development. We have our own research and development centre for developing product formulas and designs.

As at the Latest Practicable Date, our research and development centre had four staff members and all of them have relevant academic qualifications and/or experience in the aerosol industry. For further details, please refer to the paragraphs headed “Business — Research and development”.

Thanks to our research and development efforts, we have successfully mastered a number of technological know-hows such as the silver-nano anti-bacteria household cleaning technique* (納米銀抗菌家居清潔劑技術) and the air purifying and freshening technique* (空氣淨化清新劑技術), which endow our products with outstanding qualities or features.

Further, we have also registered a number of patents in respect of inventions and works by our research and development centre. Please see the paragraphs headed “Intellectual Property Rights of our Group” under Appendix V to this prospectus.

Our achievements in research and development have raised the profile of our Group. Our PRC operating entity Ludao (PRC) was recognized as a High and New Technology Enterprise (高新技術企業) by Zhejiang Provincial Science and Technology Department* (浙江省科學技術廳) and other government authorities. Accordingly, Ludao (PRC) enjoyed a reduced tax rate of 15% for the three years ended 31 December 2010, 2011 and 2012, as compared with the standard income tax rate of 25% for enterprises in the PRC. Such status of High and New Technology Enterprise (高新技術企業) will expire in November 2013 and as at the Latest Practicable Date, we had filed an application for renewal.

BUSINESS STRATEGIES

With the view to maintaining our position as a leading manufacturer of aerosol products in the PRC, our Group plans to implement the following strategies to pursue further development and expansion of our business:

We plan to enhance our production capacity

According to the CRI Report, during 2008 to 2012, the total sales volumes of aerosol products in the global market had increased by a CAGR of 6.9%. It is estimated by CRI that the annual sales volume of aerosol products in the global market will continue its growth trend in the near future. We therefore believe that it is crucial for us to enhance our production capacity in order to capture more opportunities in the growing market.

In order to increase our production capacity to capture the growing demands for aerosol products, we intend to (i) upgrade the equipment and machineries to further increase the level of automation so as to improve our production efficiency; and (ii) to have two shifts of 16 hours per day instead of one shift of 8 hours per day to increase our production capacity in the short run.

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However, the above measures are temporary by nature only. In order to increase our production capacity in the long run, we intend to carry out the following plans:

(i) Application for land use right:

We are currently applying for the land use right in respect of a piece of land of approximately 39,960 sq.m. located at Sanmen Industry Zone in Zhejiang Province, the PRC. If our application succeeds, we plan to construct a new production plant thereon containing production facilities and warehouses. The project is also conditional upon our obtaining the necessary approvals and permits from the relevant PRC government authorities including but not limited to the land use right permit and building permits. We estimate that the cost of this project will be approximately HK\$134.10 million (equivalent to approximately RMB107.28 million). The project will be to be conducted in three phases and financed through (i) bank borrowing of approximately HK\$36.00 million (equivalent to approximately RMB28.80 million); (ii) our Group's internally generated working capital for the next three years of approximately HK\$65.43 million (equivalent to approximately RMB52.34 million); and (iii) proceeds of approximately HK\$32.67 million (equivalent to approximately RMB26.14 million) from the Share Offer.

As at the Latest Practicable Date, we had paid RMB3.00 million to the relevant authorities as a deposit for the bidding of the said piece of land located at Sanmen Industry Zone in Zhejiang Province, the PRC. No other expenses had been incurred or paid. Based on our best knowledge and belief, the bidding result will be released in or around October 2013 and the respective deposit of RMB3.00 million is refundable. We will commence the relevant planning and construction design within one month upon the successful bidding of the land.

(ii) The construction of a new production plant:

The construction of this new production plant is expected to commence in first half of 2014. The breakdown of the estimated cost of which is set out below:

<u>Project</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
	Approximately HK\$'000	Approximately HK\$'000	Approximately HK\$'000
1 Construction cost (<i>Note</i>)	44,640	29,760	74,400
2 Machinery and equipment cost	11,520	17,280	28,800
3 Cost of land	14,400	—	14,400
4 Road and utilities	—	10,000	10,000
5 Project and construction management costs	1,000	1,000	2,000
6 Survey and design fees	2,000	—	2,000
7 Interest expense from bank borrowing	—	2,500	2,500
Total	<u>73,560</u>	<u>60,540</u>	<u>134,100</u>

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Note: Construction cost includes a contingency sum of approximately HK\$4.8 million to cover additional cost which may arise from unforeseen contingency events.

(iii) The timetable of the construction of our new production plant:

The estimated timetable for the construction of our new production plant is as follow:

	2014				2015			
	Quarter							
	1	2	3	4	1	2	3	4
Implementation								
Feasibility study (<i>Note 1</i>)	—							
Preliminary design (<i>Note 1</i>)	—							
Construction design (<i>Note 1</i>)		—						
Civil construction			—	—	—	—	—	
Equipment order				—	—	—		
Installation of equipment (<i>Note 2</i>)						—	—	
Training and trial production (<i>Note 3</i>)							—	—
Completion								—

Note 1: As advised by the PRC Legal Adviser, construction land planning permit, construction works planning permit and construction works commencement permit will be applied and obtained for the construction and building of production factory of our Group on the land during the first half of 2014.

Note 2: It is expected that nine production lines will be installed during the respective period.

Note 3: It is expected that production labour will be recruited and trained for the new production plant during the respective period.

(iv) Recruitment of production labour for new production plant:

We plan to recruit production labour and provide relevant training to them in the last quarter of 2015. Apart from hiring additional manpower in Sanmen County, we will hire an employment agent to host a recruitment campaign in Taizhou City in or about the third quarter of 2015, for promoting the image of our Group and introducing the environment of the new production plant to such new manpower.

(v) Procurement of raw materials for our new production plant:

In respect of the procurement of raw material, depending on the size of purchase order from our customers, we will make relevant purchase of raw materials from the existing suppliers who have developed a long-term relationship with us. We are of the view that the existing suppliers are capable of providing quality raw materials to us even if the amount of purchase order may increase as a result of our expansion.

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(vi) Completion of our new production plant:

Upon completion of the new production plant, our total annual production capacity for aerosol products is expected to reach approximately 200 million cans. Such increase in our production capacity can satisfy the increasing demand for aerosol cans in different perspectives:

1. AraGon has commenced its first purchase order in June 2013. It is expected that if AraGon has placed purchase orders on us up to 50 million cans of mosquito spray, though it is not obligated to do so, we have to fulfill the production obligation up to 50 million cans. Otherwise, we may be liable to pay to AraGon liquidated damages as set out in the Agreement C. In such event, as an interim measure, any purchase order from AraGon for our mosquito sprays would be manufactured by the existing production plant of our Group after increasing our working hours from one shift of 8 hours per day to two shifts of 16 hours per day. The interim measure will not affect our production schedule to orders from other existing customers as the additional shift of 8 hours per day shall be implemented on an overtime basis, i.e. on the top of our existing production schedule. Further, it is the mutual intention of both our Group and AraGon to continue and further expand our business cooperation in the future by negotiating with each other and working on the production schedule of the mosquito spray together before AraGon is to place the purchase orders in bulk in one go.
2. According to the report of CRI, the annual compound growth rate of the aerosol industry will be approximately 19.2% from 2013 to 2017 in the PRC. It is expected that the order for our OBM products would increase along with the growth of the aerosol industry in the PRC and our marketing resources devoted for the selected second-tier or third-tier cities. According to CRI Report, approximately 260 million aerosol cans and 310 million aerosol cans are expected to be increased from 2013 to 2014 and from 2014 to 2015 respectively in view of the growth of the aerosol industry in the PRC. We trust our existing production plant can cope with the above expected increasing trend for aerosol products in the PRC in the respective years of 2014 and 2015.

In view of the above potential growth in 2014 and 2015, we trust we can manage to satisfy the increase in demand by having two shifts of 16 hours per day instead of one shift of 8 hours per day to increase our production capacity on a temporary basis. In order to devise a long-term expansion plan, we consider that having a new production plant is reasonable and necessary after taking into account the following factors:

1. Overseas customers would only place orders to us when we have sufficient production capacity to satisfy their demands. With the existing production capacity of the production plant after increasing the number of shifts, our production capacity may still not be sufficient to meet the demand of the overseas customers, e.g. US Company B who could place order of another type of aerosol products on us in addition to the current order of approximately 40 million aerosol

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cans under the Agreement B. Increasing production capacity of our existing production plant by way of increasing number of shifts of the existing production plant cannot be considered a long-term commitment to overseas customers.

2. Experienced staff may not prefer staying with our Group in the event that they are requested to work for the night shift regularly.
3. Our equipment and machinery may not be sufficient for further expansion in production in disregard of our repair and maintenance for equipment and machinery.

Having considered (i) the growth of the aerosol industry in PRC; (ii) the opportunity to capture such growth by our Group in the long run; and (iii) the demand of the potential international customers, we are of the view that it is reasonable to construct a new production plant.

We plan to further develop our OBM business

We believe that developing our OBM business is the most effective way to establish our own brand image so as to gain wide market recognition in the PRC, reduce reliance on our CMS customers and obtain a higher profit margin of our business. Therefore, leveraging upon our experience accumulated in the CMS business, we plan to allocate more resources to our OBM business in the PRC market. In order to broaden our customer base, we plan to spend approximately HK\$14.32 million (equivalent to approximately RMB11.46 million) of the proceeds to (i) expand and enhance our current distribution network and local sales team and improve the management of our distribution network in the PRC; and (ii) market and promote our brand, our existing products and new products in the PRC Market. As such, we will not rely on a few major distributors in the PRC.

We plan to spend approximately HK\$8.59 million (equivalent to approximately RMB6.88 million) to enhance our distribution network in the PRC by increasing the number of Distributors to approximately 330 and 360 by the end of 2014 and 2015, respectively. We plan to (i) increase the number or the size of the stands held at the China Guangzhou Spring/Autumn Fair in 2014 and ISSA/Interclean Amsterdam 2014 as compared to previous participation at these events; and (ii) hold a promotional event on our products where current and potential domestic Distributors will be invited.

We also plan to spend approximately HK\$5.73 million (equivalent to approximately RMB4.58 million) to expand our sales teams and increase our penetration in second-tier and third-tier cities in the PRC, which is expected to cover approximately 15 cities by the end of 2015. We plan to focus on the expansion of approximately 15 second-tier or third-tier cities. We will hire approximately 15 sales managers and 15 sales representatives for (i) the development of the new market for each individual second-tier or third-tier city; and (ii) the provision of frequent visit and communication of the new market of each individual second-tier or third-tier cities in the PRC. We will also hire approximately 30 marketing personnel to (i) search for potential distribution network

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of our products, including but not limited to the domestic supermarket chain stores; and (ii) enhance our brand image in the appropriate promotion channel. The estimated cost for hiring new personnel for a year is approximately RMB4.58 million.

Furthermore, we are implementing a series of measures to improve our management of the distribution network. For further details, please refer to the paragraphs headed “Business — Internal Control and Corporate Governance Measures” of this prospectus.

We plan to spend approximately HK\$7.22 million (equivalent to approximately RMB5.78 million), to promote the brand names of “Green Island”, “Ludao” (“綠島”), “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”) by strengthening our marketing and advertising efforts. We plan to launch the advertising plan 3 months after the Listing in order to promote the brand names in eastern and central China. The advertising plan includes television advertising, outdoor advertising promotion and multi-media displays in shopping malls.

We believe that such expansion plan will allow us to increase our market share in the PRC and improve our Group’s sales position in the long run. Our Directors confirm that the expansion plan does not pose any additional business risk or liquidity risk to us as our Group will only finance the expansion with the proceeds from the Listing.

We plan to further develop our insecticide products to support our business with AraGon

As elaborated in the paragraphs headed “Business — Our Customers — Our CMS customers”, we have entered into Agreement C, under which if AraGon places purchase orders on us according to the schedule of the Agreement C, though it is not contractually bound to do so under Agreement C, we are expected to supply insecticide products in a total amount of approximately US\$36.30 million to AraGon within one year period if all conditions precedent in Agreement C are fulfilled and AraGon does place purchase orders on us for the amount set out in the Agreement C. Therefore, it is our plan to further develop our insecticide products.

For production under Agreement C, we expect that we have sufficient capacity to meet the demand from AraGon after extending the production hours from the existing one shift of 8 hours per day to two shifts of 16 hours per day. Despite the fact that we have engaged sub-contracting manufacturers for the production of our mosquito-repellent incenses, for the production of insecticide products under Agreement C, we are not allowed to do so. Nevertheless, we are of the view that we have sufficient manpower and production capacity to fulfill orders under Agreement C on the following grounds:

- (i) As confirmed by AraGon, AraGon’s customers are mainly government or non-government organisations and entities in Africa and the Middle East with funding from aided organisations against malaria. AraGon, being a trading company, will place purchase orders on us only after its customer(s) have obtained the relevant import license(s) and the requisite funding. As such, AraGon may or may not place purchase orders for 50 million cans of mosquito sprays for an amount up to approximately US\$36.30 million;

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- (ii) In light of the conditions precedent for the purchase orders to be placed by AraGon on our products, it is reasonable for us to expect that the purchase orders from AraGon would be made by stage in different timing. We should therefore have sufficient time to plan the production schedule ahead;
- (iii) To our best knowledge and belief, AraGon had duly reviewed our production capacity and was satisfied that we had the production capacity to fulfill our production obligation under the Agreement C before it entered into Agreement C with us; and
- (iv) To meet the purchase orders and delivery schedule under Agreement C, we can increase our production capacity by increasing the number of shifts from one shift of 8 hours per day to two shifts of 16 hours per day as an interim measure.

For raw materials procurement, though our production of insecticide products may increase by reason of Agreement C, the completion of which is subject to the fulfillment of all underlying conditions therein and AraGon having placed purchase orders on us for the amount set out in the Agreement C, we do not foresee (i) there would be any change in our plan for procurement of raw materials; and (ii) there would be any difficulties in sourcing raw materials for production under Agreement C, including the aerosol cans, expected by the Directors to be the major component of the production of the insecticide products under Agreement C.

For raw material prices, as we have not experienced any substantial raw material price fluctuation affecting the product prices during the Track Record Period, we do not foresee there will be any material fluctuation in respect of the cost structure of the insecticide products under Agreement C.

In order to provide quality insecticide products to AraGon, we plan to put more efforts in improving the quality of our insecticide products. As such, continuous product testings will be implemented and conducted by our quality control staff on our insecticide products.

We will focus on manufacturing quality insecticide products for AraGon in order to increase our reputation in the international market of insecticide products and attract more CMS business in future.

We plan to further enhance our research and development ability

We believe that one of our competitive strengths is our ability to conduct research and development. In 2012, we put a lot of emphasis on the development of insecticide products in order to satisfy the requirements of AraGon, and will continue our research and development analysis on insecticide products. Some projects brought forward from 2012 would continue for ongoing research and development in 2013, including projects in domestic sanitary insecticide aerosol propellant, solid freshener, technology of high concentrated aerosol products, lubricating aerosol and residual gases emission in aerosol. The status of each project as at the Latest Practicable Date was as follows:

1. The project on the research and development for domestic sanitary insecticide aerosol for enhancing efficiency of killing pest was still undergoing testing period;

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2. The project on the technology to increase the inertness of our non-aerosol air-fresheners was still undergoing testing period;
3. The project related to the concentration fluid for production of insecticide aerosol products was still undergoing testing period;
4. Lubricating product in aerosol form was still at preliminary stage as this is a new research area to us; and
5. The project on the technology for emission of residual gases in aerosol products was still undergoing testing period in order to have a smooth release of residual gases in aerosol products.

In addition, by leveraging on our existing sales distribution network in the PRC and the international market, we will commit more of our research and development resources to household cleaning products in 2013 so as to further improve the quality of our household cleaning products and thereby boost the sale of them. We foresee that household products, as stated in the section headed Industry Overview of this prospectus, will be one of the major segments in the aerosol product industry in the international market. As such, we will focus our research and development resources on product development of household products, in particular household cleaning products such as bathroom cleaning products. Subject to the successful launch of the above products, we plan to promote the new products through our existing network of customers in both the PRC and overseas to increase the orders from our existing distributors and/or overseas customers. In order to improve our product quality and develop new products, we will increase our investments in research and development resources and support. For the two years ending 31 December 2013 and 2014, we plan to invest approximately RMB2.00 million and RMB3.00 million respectively for the purchase and upgrade of our research and development equipment from our internal source of funding.

Further, we also plan to recruit more research and development staff with sound academic qualifications and/or experience in the aerosol industry. For the next two years ending 31 December 2013 and 2014, we will allocate a lump sum with a maximum increase of RMB1 million per year for the recruitment of research and development personnel.

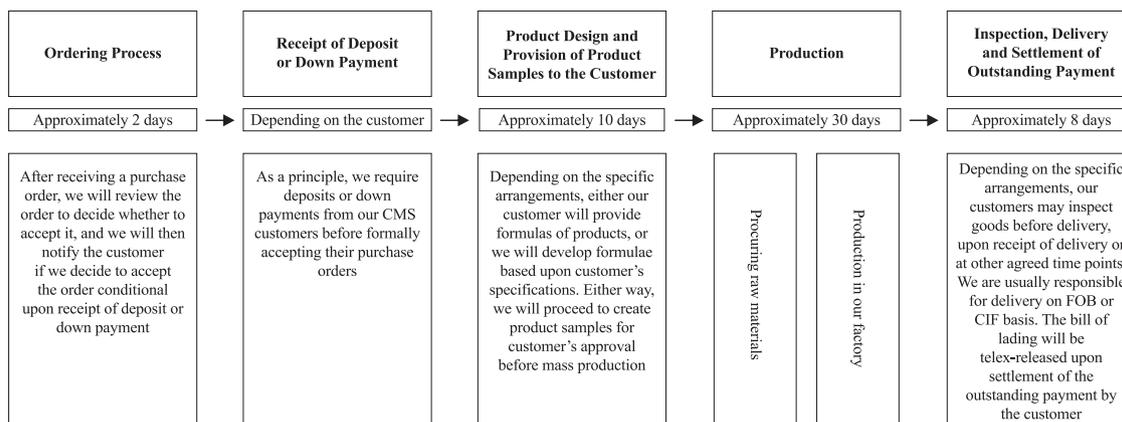
Protect our intellectual property rights

Our Directors consider that the success of our Group depends to a large extent on our ability to register and protect our intellectual property rights. In view of this, we plan to commit more resources to the registration and protection of our patents, trademarks and technological know-hows. For detailed information regarding the intellectual properties currently owned by our Group, please refer to the paragraphs headed “Intellectual Property Rights of our Group” in Appendix V to this prospectus.

OUR BUSINESS MODELS

CMS business model

We sell our CMS products to (1) outsourcing agent companies of overseas brand owners; and (2) export and trading companies, which export our CMS products to overseas countries. The following diagram illustrates generally our current CMS business model:



Notes:

- The time frame is confirmed by our Directors and calculated on an approximate basis.
- Depending on the customer's urgency for the product and the capacity of our Group to complete the relevant purchase orders, our customer will agree on a time frame with us for the delivery of our CMS products. Our production team will continuously monitor the production time for each order to ensure that the agreed time frame can be met.

Our Directors confirm that generally, we treat the product formulas or specifications provided to us by our CMS customers as intellectual property rights belonged to the relevant CMS customers, who would require us to keep such formulas and specification in strict confidence. Where the CMS customers engage us to develop product formulas in accordance with their specifications, generally we treat each product formulas as intellectual property rights belonged to them. Save for Agreement B and Agreement C, there is no provision in other current agreements with CMS customers which has expressly specified the ownership of these formulas we developed according to our customers' specifications and requests. To protect such confidential information, we have adopted a series of measures. Each kind of the chemicals required for the production will be assigned a unique numerical code. Only the chief technical controller, purchasing director and formula administrative assistant of our Group will have access to this code and the related product formula. For confidentiality purpose, this code are also used by us when purchasing chemicals. However, for safety purpose, chemicals classified as hazardous will be exempt from using numerical code during the purchase process.

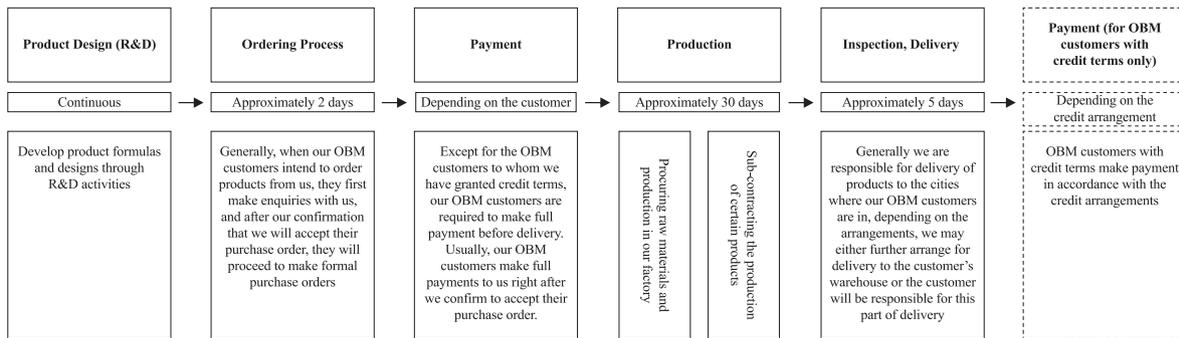
The chief technical controller, purchasing director and formula administrative assistant are required to sign confidentiality agreements in favour of us to ensure that they will not disclose any formula handled or possessed by them to third parties.

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Our Directors confirm that there had been no breach of confidentiality provisions with customers during the Track Record Period and up to the Latest Practicable Date.

OBM business model

As at the Latest Practicable Date, we sell our OBM products through our network of distributors in the PRC. The following diagram illustrates our current OBM business model:



Notes:

- The time frame is confirmed by our Directors and calculated on an approximate basis.
- Depending on the customer's requests and delivery schedule for our OMB products and the then production capacity of our Group to complete the order, our management and the customer will agree on a time frame for the delivery of the products. Our production team will continuously monitor the production time for each order to ensure that the agreed time frame can be met.
- For detailed information on our subcontracting of production, please refer to the section headed "Business — Production — Production Processes — Production for Non-Aerosol Products — Production of mosquito-repellent incenses" of this prospectus.
- For detailed information on our credit policies, please refer to the paragraphs headed "Business — Customers — Credit Policies" of this prospectus.

The production cycles of our major products can be finished within one day, depending on the volume of individual purchase orders while the average lead-time between placement of an order for raw materials and delivery of products to our customers is approximately 30 days. On the other hand, during the Track Record Period, our inventory turnover days ranged from approximately 46 days to 59 days. In other words, raw materials were stored in our warehouse for about 46 days to 59 days before they were used for production. As we managed to maintain sufficient inventory level for production, we could therefore maintain the lead-time between placement of order for raw materials and delivery of products to our customers to approximately 30 days during the Track Record Period.

To ensure that we have sufficient raw materials for production, our purchasing department reviews and monitors our inventory level on a monthly basis so as to maintain an appropriate level of inventory, with reference to, among others, our actual production plan, our storage of raw materials and their prevailing purchase price. This allows us to decide on the quantity of raw materials we should procure

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taking into account our production plan in the forthcoming month, the existing amount of our storage, the current purchase price and estimated price trend of such raw materials and to ensure that there is no excessive storage of raw materials and compile a raw material control list.

OUR PRODUCTS

Our products can broadly be classified into four product categories, namely (i) household and auto care products, (ii) air-fresheners, (iii) personal care products, and (iv) insecticides. Set out below is a breakdown of our Group's revenue by product categories during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Household and auto care products	97,257	63.90%	121,596	57.17%	110,119	48.12%	21,785	47.99%	25,745	47.38%
Air-fresheners	33,434	21.97%	62,224	29.26%	77,223	33.74%	15,388	33.90%	16,179	29.77%
Personal care products	16,631	10.93%	22,878	10.76%	27,583	12.05%	3,526	7.77%	6,218	11.44%
Insecticides	4,867	3.20%	5,978	2.81%	13,927	6.09%	4,693	10.34%	6,201	11.41%
Total	<u>152,189</u>	<u>100.00%</u>	<u>212,676</u>	<u>100.00%</u>	<u>228,852</u>	<u>100.00%</u>	<u>45,392</u>	<u>100.00%</u>	<u>54,343</u>	<u>100.00%</u>

Each product category further comprises a number of product series. The products under the above four categories are mostly aerosol products while some of them are non-aerosol products such as the product series of liquid laundry detergents, solid/liquid air-fresheners and mosquito-repellent incenses. The life cycle of our products is generally two years.

Among these four product categories, household and auto care products and air-fresheners were our first and second largest revenue-generators during the Track Record Period. In 2012, we entered into Agreement C with AraGon by virtue of which the latter may, but is not obliged to, purchase from us mosquito sprays up to an total amount of approximately US\$36.30 million within an one-year period but AraGon's purchase of our mosquito spray is subject to, among other things, the underlying conditions that AraGon's customers having obtained the requisite import licence(s) of our products to their countries and these customers having consented to place orders for our products and have the requisite funding from aided organisations against malaria. With a view to building up long-term business relationship with AraGon in the future after the expiry of Agreement C, we plan to allocate more resources to develop insecticides though insecticides had only contributed to a very small portion of our revenue during the Track Record Period.

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Household and auto care products

The table below sets out further information about our major products in this category:

Product series under household and auto care products	Sales model during the Track Record Period	Description	Sample pictures	Average selling price per unit in 2012 (RMB)
Household care products	Sold on both: — CMS basis; and — OBM basis under our brands of “Green Island”, “Ludao” (“綠島”); and “JIERJIA” (“吉爾佳”)	Household care products for the cleaning of glass panes and other glass objects, the kitchen range, and the bathroom		CMS: 2.61 OBM: 5.96
Auto care products	Sold on both: — CMS basis; and — OBM basis under our brand of “Green Island”, “Ludao” (“綠島”)	Auto care products for the cleaning of automobile tyres, seats and window glasses		CMS: 2.51 OBM: 2.74
Non-aerosol liquid laundry detergents	Sold on OBM basis under our brand of “JIERJIA” (“吉爾佳”)	liquid laundry detergents substance, usually kept in plastic bottle and refill form		OBM: 12.54 (Note)

Note: Our non-aerosol liquid laundry detergents were launched in the first quarter of 2013. This average selling price per unit is in respect of the three months ended 31 March 2013.

Air-fresheners

Our air-freshening products can be mainly divided into two product series: aerosol air-fresheners, and non-aerosol solid/liquid air-fresheners. The table below sets out further information about our major products in this category:

Product series under air-fresheners	Sales model during the Track Record Period	Description	Sample pictures	Average selling price per unit in 2012 (RMB)
Aerosol air-fresheners	Sold on both: — CMS basis; and — OBM basis under our brand of “Green Island”, “Ludao” (“綠島”)	Dispensed in the form of aerosol sprays		CMS: 2.72 OBM: 2.69

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Product series under air-fresheners	Sales model during the Track Record Period	Description	Sample pictures	Average selling price per unit in 2012 (RMB)
Non-aerosol solid/liquid air-fresheners	Sold on both: — CMS basis; and — OBM basis under our brand of “Green Island”, “Ludao” (“綠島”)	Solid or liquid air-freshening substance, usually kept in plastic containers and emitting fragrance into the air in the process of sublimation or evaporation		CMS: 1.83 OBM: 1.51

Personal care products

Our personal care products consist of three product series, namely hair-care products, perfumes and shaving products. The table below sets out further information regarding the three product series:

Product series under personal care products	Sales model during the Track Record Period	Description	Sample pictures	Average selling price per unit in 2012 (RMB)
Hair-care products	Sold on CMS basis	Including hair mousse and hair sprays		CMS: 2.96
Shaving products	Sold on both: — CMS basis; and — OBM basis under our brand of “JIERJIA” (“吉爾佳”)	Including shaving gels and shaving bubbles		CMS: 2.80 OBM: 3.21

Insecticides

Our product series under this category mainly include aerosol insecticides and mosquito-repellent incenses as shown by the table below:

Product series under Insecticides	Sales model during the Track Record Period	Description	Sample pictures	Average selling price per unit in 2012 (RMB)
Aerosol insecticides	Sold on both: — CMS basis; and — OBM basis under our brands of “Green Island”, “Ludao” (“綠島”), “EAGLEIN KING” (“鷹王”) (Note)	Insecticides spray		CMS: 5.63 OBM: 4.98

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Product series under Insecticides	Sales model during the Track Record Period	Description	Sample pictures	Average selling price per unit in 2012 (RMB)
Mosquito-repellent incenses	Sold on OBM basis under our brand of "EAGLEIN KING" ("鹰王")	Insect killing		OBM: 2.41

Note: Pursuant to the terms and conditions of Agreement C, we will manufacture and supply to AraGon mosquito sprays under the product series of aerosol insecticides on CMS basis and in June 2013, AraGon had already placed the first purchase order on us, which was completed in August 2013.

SALES AND DISTRIBUTION

Our sales team is divided into CMS sales group and OBM sales group. Set out below is a breakdown of our Group's revenue by the classification of OBM products and CMS products during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (Unaudited)	% of revenue	RMB'000	% of revenue
CMS products	138,686	91.13%	196,044	92.18%	190,640	83.30%	36,734	80.93%	44,599	82.07%
OBM products	13,503	8.87%	16,632	7.82%	38,212	16.70%	8,658	19.07%	9,744	17.93%
Total	<u>152,189</u>	<u>100.00%</u>	<u>212,676</u>	<u>100.00%</u>	<u>228,852</u>	<u>100.00%</u>	<u>45,392</u>	<u>100.00%</u>	<u>54,343</u>	<u>100.00%</u>

Sale of CMS products

During the Track Record Period, sales of our CMS products constituted our major source of revenue. Our position as a leading manufacturer of aerosol products in the PRC is principally due to the production and sales volume of our CMS products.

During the Track Record Period, revenue generated from our CMS sales showed an overall increase trend except for the slight decrease in 2012. For the three years ended 31 December 2010, 2011 and 2012 revenue derived from our CMS business was approximately RMB138.69 million, RMB196.04 million and RMB190.64 million respectively, representing a CAGR of approximately 17.25%. For the three months ended 31 March 2012 and 2013, revenue derived from our CMS business was approximately RMB36.73 million and RMB44.60 million respectively, representing an increase of approximately 21.41%. The gross profit margin of our CMS products remained steady during the Track Record Period. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, the gross profit margin for our CMS products was approximately 23.21%, 23.08%, 23.20% and 22.42% respectively.

Our CMS customers mainly include (1) outsourcing agent companies of overseas brand owners; and (2) export and trading companies, which export our CMS products to overseas countries. For further details, please refer to the paragraph headed "Customers — Our CMS customers" under this section of this prospectus.

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For detailed information on our operational flows under the CMS business model, please refer to the paragraph headed “Our Business Models — CMS business model” under this section of this prospectus.

During the Track Record Period and up to the Latest Practicable Date, our CMS customers settled payment mainly through telegraphic transfer in US dollars and RMB.

Sale of OBM products

During the Track Record Period, our OBM sales, which represent a smaller proportion of our revenue as compared with our CMS sales, maintained a steady growth from 2010 to 2011 and a fast growth from 2011 to 2012. For the three years ended 31 December 2010, 2011 and 2012, revenue derived from our OBM business was approximately RMB13.50 million, RMB16.63 million and RMB38.21 million respectively, representing a CAGR of approximately 68.22%. For the three months ended 31 March 2012 and 2013, revenue derived from our OBM business was approximately RMB8.66 million and RMB9.74 million respectively, representing an increase of approximately 12.54%.

Starting from the end of 2011, in order to achieve our objective of developing our OBM business, leveraging upon (i) our knowledge, experience and market resources accumulated through years of conducting CMS business, and (ii) market recognition of our brands as a result of our reliable product quality and marketing activities, we have been successfully expanding our distribution network and significantly increasing our OBM sales. Revenue derived from our OBM business for the two years ended 31 December 2011 and 2012 was approximately RMB16.63 million and RMB38.21 million respectively, representing an increase of approximately 129.75%.

The gross profit margin of our OBM products could be sustained during the Track Record Period. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, the gross profit margin for our OBM products was approximately 26.05%, 24.91%, 28.92% and 28.02% respectively.

For the detail on our operational flows under OBM model, please refer to the paragraph headed “Business — Our Business Models — OBM business model” of this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we sold our OBM products mainly through our distribution network in the PRC. These Distributors either retail our products at their own points of sale, or sell our products to their end customers and they also referred customers to us to purchase of our OBM products. Save for the Distributors, those end customers and/or those referred by Distributors had not entered into any binding agreement with us. We adopt this distribution model because our Directors believe that it would effectively facilitate the establishment and expansion of the market presence of our OBM products and promotes the overall market awareness of our brand names at a faster speed and a lower cost than if we were to distribute our products by ourselves. Our Directors also believe that the current distribution model for our OBM products reduces our risks relating to the distribution of our products, as we can count on our Distributors, who possess knowledge and resources of the local market to make appropriate plans for the distribution of our products.

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We enter into distribution agreements with our Distributors to lay down their rights and obligations in selling our OBM products. We have adopted series of measures to manage our distribution network. For details in this respect, please refer to the paragraph headed “Business — Customers — Our OBM customers” of this prospectus.

We supply our products to our OBM customers at uniform wholesale prices which are predetermined by our Group and notified to our OBM customers at the beginning of each year. However, these prices can be adjusted by us upon giving prior notice to the customers. On the other hand, we only set the minimum price levels for our OBM customers to sell our products to their customers. As such, our OBM customers, who are Distributors, are allowed to sell our products to their customers at any price above the said minimum price levels. We use RMB as the settlement currency for sale of our OBM products to the Distributors.

Pricing

In our CMS pricing policy, we take into account various factors such as production costs, packaging requirements and the purchase amount of individual purchase orders. In case we are responsible for developing product formulas, we also take research and development costs into consideration. The selling price of our CMS products is predetermined by us based on, *inter alia*, the market price of raw materials plus a mark-up unless discount is so requested by customers. The selling prices would not be affected by the design services we provide to customers as such design service is considered as a kind of ancillary services which will not entail additional price to them and will enhance our relationship with the customers. During the Track Record Period, we had not given or agreed to give any discount on the pricing of our CMS products.

In our OBM pricing policy, we take into consideration similar factors as in CMS pricing policy. We sell our OBM products to our customers at uniform wholesale prices determined by the OBM sales group of our sales team on annual basis. We do not cap the price at which our Distributors can sell our products; however, except in sales promotions, our Distributors are prohibited from selling our OBM products below a certain price level as stipulated in the distribution agreements, which is either the same price as our uniform wholesale price or 110% thereof. We maintain frequent contacts with our Distributors through meetings and telephone calls, and we also conduct visits to retail shops, to ensure that our Distributors are following our pricing policy. Through this pricing policy, we are able to maintain a uniform price for our OBM products and therefore reduce the risk of price war among our Distributors, while Distributors are still provided with certain flexibility to adjust the prices if necessary.

Logistics

Generally, for our CMS business, finished products are delivered by external transportation companies or export trading companies engaged at our costs to the locations designated by our CMS customers. Our Group or the export trading companies are responsible for the relevant customs clearance procedures at the PRC Customs.

As for our OBM business, the usual logistic arrangement with our Distributors is that we engage transportation companies at our own costs for delivering our OBM products to the Distributors' warehouses or collection points in the cities designated by the Distributors.

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Markets

During the Track Record Period, our CMS products were sold to overseas markets including the US and Europe, etc., while our OBM products were sold in the PRC market. The table below sets out the breakdown of our revenue by geographic area for the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
US	124,888	82.06%	169,812	79.85%	150,154	65.61%	30,140	66.40%	35,930	66.12%
PRC	13,503	8.87%	16,632	7.82%	38,212	16.70%	8,658	19.07%	9,744	17.93%
Europe	6,539	4.30%	9,575	4.50%	18,701	8.17%	2,641	5.82%	4,869	8.96%
Other	7,259	4.77%	16,657	7.83%	21,785	9.52%	3,953	8.71%	3,800	6.99%
Total	<u>152,189</u>	<u>100.00%</u>	<u>212,676</u>	<u>100.00%</u>	<u>228,852</u>	<u>100.00%</u>	<u>45,392</u>	<u>100.00%</u>	<u>54,343</u>	<u>100.00%</u>

Sales of our CMS products to the US market formed the major source of our revenue during the Track Record Period and up to the Latest Practicable Date. We believe that the US market will continue to be one of our major markets in the foreseeable future.

Seasonality

Our Directors confirm that, based upon our past experience, our sales generally experience boom season in May, June and December, and off-season from January to March.

The Directors believe that the seasonal trends for our sales are mainly due to the following reasons:

- (i) *The influence of trade fairs:* during the Track Record Period, we participated in the Canton Fair regularly. The Canton Fair holds two sessions each year starting from April to May and from October to November, through which we can generally secure comparatively large amount of purchase orders from customers who participated in the Canton Fair. Therefore, we experience boom seasons in the one or two months subsequent to the sessions of the Canton Fair.
- (ii) *The influence of festivals:* the demand for our products in the US and other overseas markets generally increases around Christmas due to the traditional habit of festive shopping around this time of the year. For the PRC market, as (i) consumer demand is generally stronger around the Chinese New Year; and (ii) our production volume decreases around the Chinese New Year because of the long holiday, our Distributors generally place comparatively large amount of purchases from us towards the end of December, so that they will have enough stock to meet the increased consumer demand immediately before the Chinese New Year.

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CUSTOMERS

For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our sales to our top five customers amounted to approximately RMB128.81 million, RMB177.77 million, RMB172.83 million and RMB39.40 million respectively, representing approximately 84.64%, 83.59%, 75.52% and 72.51% respectively of our total revenue. Most of these customers, including our largest customer, are CMS customers. We have maintained years of business relationship with most of our major customers.

During the three years ended 31 December 2010, 2011 and 2012, Yiwu Weiwei, being one of our top five customers and our largest OBM customer, is a sole proprietorship owned by Mr. Yu Afu, the father of Mr. Yu. Therefore, Yiwu Weiwei is our Connected Person. Our Directors have confirmed that our transactions with Yiwu Weiwei were conducted in the ordinary course of business of our Group and on normal commercial terms. Following the Listing, our sales of products to Yiwu Weiwei will be continued in the normal course of our business, which will constitute Connected Transactions. For further information in this respect, please refer to the sections headed “Financial Information” and “Connected Transactions” of this prospectus.

The following tables set forth certain information about our top five customers during the Track Record Period.

Top five Customers for the year ended 31 December 2010	Sales amount (RMB'000)	Percentage (%) to our total revenue	Credit period (Note 1)	Year of relationship (as at 31 December 2010) (Note 2)	Nature of Customer (CMS/OBM)
Fayeshine	115,282	75.75%	15 to 20 days	4 years	CMS
Customer A	4,084	2.68%	35 days	5 years	CMS
Yiwu Weiwei	3,822	2.51%	180 days	6 years	OBM
Customer B	3,520	2.31%	30 days	5 years	CMS
Customer C	2,103	1.38%	25 days	1 year	CMS

Top five Customers for the year ended 31 December 2011	Sales amount (RMB'000)	Percentage (%) to our total revenue	Credit period (Note 1)	Year of relationship (as at 31 December 2011) (Note 2)	Nature of Customer (CMS/OBM)
Fayeshine	115,988	54.54%	15 to 20 days	5 years	CMS
Ningbo Hiking	46,887	22.05%	15 to 20 days	5 years	CMS
Yiwu Weiwei	6,223	2.93%	180 days	7 years	OBM
Customer B	4,525	2.13%	30 days	6 years	CMS
Customer A	4,151	1.95%	35 days	6 years	CMS

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Top five Customers for the year ended 31 December 2012	Sales amount (RMB'000)	Percentage (%) to our total revenue	Credit period (Note 1)	Year of relationship (as at 31 December 2012) (Note 2)	Nature of Customer (CMS/OBM)
Fayeshine	75,493	32.99%	15 to 20 days	6 years	CMS
Ningbo Hiking	61,615	26.92%	15 to 20 days	6 years	CMS
Yiwu Weiwei	15,221	6.65%	180 days	8 years	OBM
Customer B	11,320	4.95%	30 days	7 years	CMS
Customer D	9,180	4.01%	30 days	3 years	CMS

Top five Customers for the three months ended 31 March 2013	Sales amount (RMB'000)	Percentage (%) to our total revenue	Credit Period (Note 1)	Year of relationship (as at 31 March 2013) (Note 2)	Nature of Customer (CMS/OBM)
Fayeshine	27,183	50.02%	15 to 20 days	7 years	CMS
Customer B	3,527	6.49%	30 days	8 years	CMS
Customer D	3,401	6.26%	30 days	4 years	CMS
Customer E	2,739	5.04%	0 days	1 year	OBM
Customer F	2,555	4.70%	30 days	1 year	CMS

Note 1: Credit periods are stated on a general basis.

Note 2: It was based on the year in which the first purchase order/invoice was issued.

Save as disclosed above, our Directors confirm that none of our Directors, their Associates or Shareholders who, to the best knowledge and information of our Directors, owned more than 5% of our issued share capital, had any interest in any of our Group's top five customers during the Track Record Period.

Our CMS customers

Our CMS customers mainly include (1) outsourcing agent companies of overseas brand owners; and (2) export and trading companies, which export our CMS products to overseas countries. During the three years ended 31 December 2010, 2011 and 2012, our two major CMS customers were Fayeshine and Ningbo Hiking.

Fayeshine

Fayeshine was our largest CMS customer and our largest customer during the Track Record Period. Fayeshine is an outsourcing agent for US Company A (later US Company B). According to the confirmations issued by Fayeshine and US Company B, US Company B had acquired the assets and liabilities (including all the trademarks) of US Company A by the end of 2010 and since then, all invoices and relevant documents regarding their sales were issued by US Company B. As such, following expiration of Agreement A, we renewed the framework agreement consecutively (i.e. Agreement B) with US Company B on 7 September 2012 and 4 September 2013. To our best information and belief: (i) US Company B is a supplier of over 200 health and beauty aid and household products to a full range of retail outlets in the US; (ii) it is the trademark owner of a number of brands

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and meanwhile also supplies strategic private label programs for the large food, drug and mass merchant chains in the US. By selling our CMS products to Fayeshine, we will be entitled to an export tax refund ranging from 5% to 13%, depending on the nature of our export products.

For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, the sales to our largest CMS customer amounted to approximately RMB115.28 million, RMB115.99 million, RMB75.49 million and RMB27.18 million respectively, representing approximately 75.75%, 54.54%, 32.99% and 50.02% of our total revenue.

To reduce our reliance on the sales of our products to US Company B, we have been expanding our customer base insofar as our CMS business is concerned by, *inter alia*, (i) participating in both domestic and international trade exhibitions including but not limited to the Canton Fair and ISSA/ Interclean Amsterdam; (ii) using the internet search engine to search for potential customers; and (iii) promoting our products through business-to-business platform through internet. As such, for the year ended 31 December 2012, our sales to US Company B reduced to approximately RMB122.36 million by approximately 21.93% as compared to approximately RMB156.37 million for the year ended 31 December 2011, and the revenue generated from our CMS sales in 2012 decreased to approximately RMB190.64 million from approximately RMB196.04 million in 2011, representing a decrease of approximately 2.7%.

Ningbo Hiking

Ningbo Hiking is our second largest CMS customer and our second largest customer for the two years ended 31 December 2011 and 2012. Ningbo Hiking is an export agent company which provides export services (including documentation and custom clearance) in the PRC. We have respective business relationship with both Fayeshine and Ningbo Hiking since 2007. For the three years ended 31 December 2010, 2011 and 2012, our CMS products sold to Ningbo Hiking were in turn resold by Ningbo Hiking to Fayeshine and the amount of which amounted to approximately nil, RMB40.39 million and RMB46.86 million respectively. We confirm that throughout the three years ended 31 December 2010, 2011 and 2012, all our products sold to Fayeshine either directly by us or through Ningbo Hiking were resold by Fayeshine to US Company A (later US Company B). As Fayeshine is the outsourcing agent of US Company A (later US Company B) in the PRC, we therefore have to sell our products to the US Company A (later US Company B) through Fayeshine as requested by Fayeshine in the relevant purchase orders from time to time. Our sales to Fayeshine decreased from approximately RMB115.99 million in 2011 to approximately RMB75.49 million in 2012 while our sales to Ningbo Hiking increased from approximately RMB46.89 million to approximately RMB61.62 million during the same period. This was due to the shortage of manpower of our internal customs department resulted from the resignation of certain staff members who were responsible for handling customs clearance matters of our CMS products in 2011 and the fact that export of our aerosol products from the PRC to foreign countries can only be carried out by corporations who hold valid export licence. As an interim arrangement, we started selling CMS products to Ningbo Hiking who could also provide export services for us and obtained customs clearance relating to our CMS products. By doing so, we could alleviate the workload of our customs department, in particular after the resignation of our Group's custom staff in the second half of 2011. US Company B has confirmed in writing that it relies upon our Group for the manufacture and supply of their aerosol products, which are mainly household cleaning products and personal care products on a CMS basis, in the PRC. Hence, our reliance on Fayeshine and Ningbo Hiking for sales of our products to US Company A (later US Company B) is mutual and complementary.

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Most of the export services provided by Ningbo Hiking to us during the Track Record Period were originated from sales orders made by Fayeshine. We had obtained approval from Fayeshine for the selling of our products to Ningbo Hiking which would in turn resell the products to it. The sales of our products to Ningbo Hiking would not entitle us for any export tax refund under the relevant requirements of export sales as such sales were by nature local sales within the PRC. Ningbo Hiking had to pay the input VAT of 17% for its purchase of CMS products from us. This input VAT would be partially offset by the export tax refund ranging from 5% to 13% by selling the products to Fayeshine for export.

By the above arrangement, Ningbo Hiking might suffer the difference between the input VAT tax (17%) and the export tax refund (5% to 13%). These differences were subsequently reimbursed by Fayeshine. As such, Ningbo Hiking would not suffer any loss while it would have gains on the exchange rate between US\$ and RMB as the sales between us and Ningbo Hiking were settled by RMB whereas the sales between Ningbo Hiking and Fayeshine were settled by US\$. Fayeshine was willing to reimburse Ningbo Hiking with the difference between VAT and the export tax refund because Ningbo Hiking was at that time the only alternative source from whom Fayeshine could purchase our products for export and resale to US Company B when our customs department could not function properly due to the resignation of the responsible staff. Apart from purchasing CMS products from our Group and Ningbo Hiking, Fayeshine could not procure aerosol products from other manufacturers unless such manufacturers had the prior approval from US Company B.

There is no pricing difference between the products we sold to Ningbo Hiking and those we sold to Fayeshine and thus, the gross profit margin arisen from our sales to Ningbo Hiking and Fayeshine was the same during the Track Record Period though we would not be entitled to the export tax refund if we sold our products to Ningbo Hiking. Hence, this arrangement with Ningbo Hiking only affected the estimated cash flow of our Group as the estimated export tax refund received from the PRC customs would be taken up by Ningbo Hiking, which amounted to approximately RMB0.02 million, RMB5.36 million, RMB7.15 million and nil for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively. The export tax refund was estimated based on the sales amount of different types of products sold to Ningbo Hiking and the relevant export tax refund rate for the respective product. In other words, if we could sell the products directly to Fayeshine, the export tax refund would be contributed to our other receivables during the said period. The export tax refund received by Ningbo Hiking is not relevant to the financial statements of our Company during the Track Record Period.

Despite the export services rendered to us by Ningbo Hiking during the three years ended 31 December 2010, 2011 and 2012, it was considered as our customer since it undertook all the risks and benefits associated with the products purchased from us. We have not entered into any tri-party agreement or arrangement with Ningbo Hiking and Fayeshine or any end customers with regard to the sales and purchase of our products. Further, we were not and will not be involved in the subsequent sales and distribution of our products after we have sold the products to Ningbo Hiking nor accepted any purchase orders from Ningbo Hiking's own customers. Thus, we have no latitude in establishing the price, either directly or indirectly, of our products to be sold by Ningbo Hiking to its customers. The sales of our products to Ningbo Hiking is recognized upon delivery of the products to Ningbo Hiking irrespective of whether the products are subsequently sold to other overseas customers by Ningbo Hiking. Ningbo Hiking has the ultimate responsibility to settle the bill amount payable to us and it bears the entire credit risks and we do not take any responsibility if there is any default from Ningbo Hiking's

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customers. In addition to the above, the sales agreement entered into between Ningbo Hiking and us contain the following terms, which would inevitably establish the seller-buyer relationship between us and Ningbo Hiking:

- (i) Delivery Terms — we shall bear the costs of delivering our products to the FOB port(s) designated by Ningbo Hiking (i.e. over the vessel's rail in the port). Upon such delivery, we consider that all risks and rewards associated with the ownership of our products are transferred to Ningbo Hiking and the relevant amount of sales shall be recognized.
- (ii) Settlement terms — 20% of the sales consideration should be paid upon confirmation of sales orders but before delivery of our products, 60% of the sales consideration should be made no later than the date of bill of lading and the remaining 20% thereof should be paid within two months after shipment of our products (Ningbo Hiking paid the sales consideration within 15 to 20 days after shipment of our products). Ningbo Hiking has the ultimate responsibility to settle the bill due to us and it also bears the credit risk and we do not take any responsibility in case of any default arising from Ningbo Hiking's customers.
- (iii) Indemnity terms — We do not bear any inventory risk upon delivery of our products to Ningbo Hiking and we have no responsibility on sales return if so requested Ningbo Hiking's customers.

Through years of cooperation, we have formed solid business relationships with most of our major CMS customers. Despite that we generally do not enter into framework agreements with our CMS customers, we have entered into the framework agreements below with US Company A, US Company B and AraGon, which are parties that we consider to be most essential to our CMS business.

Agreement A

In 2009, we entered into Agreement A directly with Fayeshine's principal, US Company A but both of Fayeshine and Ningbo Hiking were not parties to Agreement A. Fayeshine was an outsourcing agent for US Company A who acted upon US Company A's instructions to purchase our CMS products from us. As Agreement A mainly covered our rights and obligations of manufacturing CMS products for US Company A, and therefore it was not necessary to include Fayeshine as a party to Agreement A. As concerns Ningbo Hiking, though we had sold CMS products to Fayeshine through Ningbo Hiking in view of the export services provided by Ningbo Hiking, we note that Ningbo Hiking does not have any direct business relationship with US Company A, unlike Fayeshine who was the sourcing agent of US Company A. Our Directors confirm that, Fayeshine and Ningbo Hiking were not included as parties to Agreement B for the same reasons.

Although Agreement A does not expressly mention that our products are sold to US Company A through Fayeshine, Ningbo Hiking or other entities, by a tri-party confirmation dated 19 July 2012 entered into between Ludao (PRC), Fayeshine and US Company B on behalf of itself and US Company A (the "**Tri-party Confirmation**") and a confirmation letter issued by US Company B on behalf of itself and US Company A dated 8 August 2012 (the "**Confirmation Letter**"), US Company B confirmed on behalf of itself and US Company A that: (i) US Company A (later US Company B)

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engaged Fayeshine as its outsourcing agent to place purchase orders with us for the Products (as defined below); and (ii) US Company A (later US Company B) has not and will not circumvent Fayeshine from purchasing the Products directly from us.

By virtue of Agreement A, we agreed to sell to US Company A on an exclusive basis and US Company A agreed to purchase from us certain household and personal care aerosol products (the “**Products**”) on CMS basis. The governing law of Agreement A is US law. As advised by the US legal advisers, Agreement A is legally binding. The major terms of Agreement A are summarized hereunder:

- *Duration*: the agreement lasted for a term of three years and expired in 2012.
- *Minimum Purchase Commitment*: for each year during the term of Agreement A, the quantity of Products transacted between the parties should meet or exceed the quantity in calendar year 2009. We confirm that US Company A had fulfilled their minimum purchase commitment during the Track Record Period insofar as it was covered by the Track Record Period.
- *Pricing*: we agreed to confer on US Company A the most favoured customer status and we therefore provided US Company A with preferred pricing on all Products at prices less than or equal to the prices we offered to our other customers. The prices of the Products should remain fixed for six months from the date of the agreement and then be subject to negotiation by the parties in good faith.
- *Exclusivity*: Agreement A did not expressly confer on us exclusivity in the supply of the Products to US Company A. However, according to the Confirmation Letter, we had been the only aerosol products supplier of US Company A since the signing of Agreement A in 2009.
- *Non-Competition*: we expressly agreed in Agreement A that during the term of and following the termination of Agreement A, we should not, within the US, solicit, distribute or sell products that were similar to the Products to any current or potential customer or competitor of US Company A (the “**Non-Competition Clause**”). However, during the term of Agreement A, we sold and distributed aerosol products to third party companies in the US and thus might have breached the Non-Competition Clause. Our Directors confirm that before the breach of the Non-Competition Clause took place, we had verbally informed US Company A of our intention to sell our products to other customers in the US market in order to further expand our CMS business. Therefore, it appeared to us that at the material time, US Company A, as confirmed in the Confirmation Letter, should have knowledge about our breach of the Non-Competition Clause. As further confirmed by US Company A in the Confirmation Letter, it would not take any action against us in relation to our breach of the Non-Competition Clause in any jurisdiction. Our US legal advisers, Kaufman & Canoles, P.C., opine that the Confirmation Letter was valid and binding on US Company A and US Company B. We confirm that we had not paid any consideration/compensation to US Company A as a result of the breach and/or issuance of the Confirmation Letter by US Company B on behalf of itself and US Company A.
- *Termination*: Agreement A provided that it might be terminated either (i) by mutual written consent of the parties, or (ii) by our Group where US Company A materially breached the agreement and failed to remedy within 30 days upon receipt of our notice of the breach.

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Subsequent to the expiry of Agreement A in 2012, we entered into Agreement B with US Company B, which had acquired and taken over the assets and liabilities of US Company A (the “Takeover”) by the end of 2010, to continue our business. US Company B assumed all assets and liabilities of US Company A as a result of the Takeover, including but not limited to the rights and obligations under Agreement A. As such, US Company B did not enter into any new agreement with us immediately after the Takeover because the Agreement A continued to be effective. Our US legal advisers, Kaufman & Canoles, P.C., also advised that Agreement A was legally and equitably binding as between us and US Company A and US Company B before and after the Takeover.

Agreement B

Under Agreement B, we agreed to sell to US Company B and US Company B agreed to purchase from us, certain aerosol products mainly including air-fresheners, household cleaning products and personal care products on a CMS basis. The governing law of Agreement B is PRC law. As confirmed by our PRC Legal Adviser, Agreement B is legally binding.

The major terms of Agreement B are summarized hereunder:

- *Duration*: the agreement shall last for a term of one year and will expire in September 2014. There is no renewal clause.
- *Commitment of Minimum Transaction Amount*: during the term of Agreement B, the quantity of Products transacted between us and US Company B shall meet or exceed a minimum amount of 40 million units. The agreement does not expressly stipulate penalties in the event of one party’s failure to achieve the commitment of minimum transaction amount. According to our PRC Legal Adviser, if one party fails to fulfill the minimum transaction amount, under relevant PRC law, generally the breaching party will be liable to specific performance, remedial actions or compensations for the other party’s loss, etc. Our Directors expected that US Company B would be able to fulfill this minimum transaction amount before the expiration of Agreement B.
- *Pricing*: we agree to confer on US Company B the most favoured customer status and thereby provide US Company B with products at prices less than or equal to the prices offered to our other customers. The prices of the products should remain fixed for six months from the date of the agreement and then be subject to negotiation by the parties in good faith.
- *Exclusivity*: Agreement B did not confer on us exclusivity in the supply of the products to US Company B.
- *Non-Competition*: Agreement B does not contain any non-competition clause, and therefore we are not bound by any non-competition restrictions.
- *Termination*: there is no express termination clause in Agreement B. According to our PRC Legal Adviser, under relevant PRC laws, the agreement may be terminated: (i) in the event of force majeure rendering performance of the agreement impossible; (ii) where one party expresses by words or conduct that it will not perform its material obligations under the agreement; (iii) where one party delays in performing its material obligations and further fails

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to perform after expiry of notice period given by the other party; (iv) where one party delays in discharging its obligations or otherwise breaches the agreement rendering performance of the agreement no longer possible; or (iv) under other circumstances stipulated by law.

We renewed Agreement B (after its expiration in September 2013) with US Company B on similar terms for a further term of one year and one day commencing from 10 September 2013 to 10 September 2014. We take the view that impact of Agreement B on our operation will be reduced gradually as we have secured AraGon as our new customer by entering into binding Agreement C with AraGon and expanding our OBM business. Given we have already obtained one requisite pesticide registration certificate for production of 20 million cans of mosquito sprays and AraGon has been applying for registration of its trademarks and patents in various countries, we anticipate that the amount of purchase of AraGon would increase. Further, for the three years ended 31 December 2010, 2011 and 2012, the revenue from our OBM business represented a CAGR of approximately 68.22%. Thus, the impact of Agreement B on our operation could gradually be reduced by Agreement C and our OBM business.

Agreement C

In October 2012, we entered into Agreement C with AraGon, a trading company incorporated under Hong Kong laws on 2 February 2011 with an authorised share capital of HK\$10,000. AraGon's management headquarter and major shareholders are located in Germany with an office in Hong Kong. AraGon does not have any production base of its own. According to our search record, we note that AraGon's products are verified by LRHQ (LebensmittelRecht | Hygiene | Qualität) in Germany. AraGon has a service provider in Shanghai, the PRC, who provides administrative support services for it. AraGon and our Group came to know each other at a business fair in 2011. As confirmed by AraGon, it was at the time sourcing manufacturers of mosquito sprays in the PRC, and we were chosen to be one of the manufacturers.

As informed by AraGon, its customers are mainly government or non-government organisations and entities in Africa and the Middle East with funding from aided organisations against malaria. Whether AraGon will place purchase orders on us for our mosquito sprays is subject to, among other things, the underlying conditions that (i) we have obtained the relevant certificates for pesticide registration of mosquito sprays with different ingredients, which may be needed by AraGon's customers in applying for the relevant import licences in their home countries; and (ii) AraGon's customers have confirmed and approved on the purchase amount of our mosquito sprays. As to the latter condition, AraGon clarified that its customer(s) will confirm and approve the purchase amount only after it has obtained both import licence(s) of their home countries for custom clearance for importing our mosquito sprays and the requisite funding from aided organisations against malaria. We obtained the pesticide registration certificate for the production of a kind of mosquito sprays covering 20 million cans of mosquito sprays on 25 April 2013. As at the Latest Practicable Date, we have not applied for the pesticide registration certificate for production of another kind of mosquito sprays covering the remaining 30 million cans of mosquito sprays. In this connection, we entered into the second addendum to Agreement C on 5 August 2013 with AraGon, pursuant to which, AraGon confirmed, *inter alia*, that it would not place any purchase order on us for the mosquito sprays covered by the outstanding pesticide registration certificate until we have obtained the same and it would render all reasonable assistances to us in our application for the pesticide registration certificate in the future. AraGon further confirmed that our lack of such pesticide registration certificate shall not constitute a breach of Agreement C. As such, AraGon will not place any purchase order on us for production of mosquito

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sprays which requires the outstanding pesticide registration certificate for the time being and thus, there is no immediate urge for us to apply for such certificate from Ministry of Agriculture of the PRC* (中華人民共和國農業部). Despite the aforesaid, we plan to submit an application for the outstanding pesticide registration certificate in or around October 2013. If we comply with the relevant law and regulations and satisfy the requirements of the authority when making the applications, according to the advice of our PRC Legal Adviser, there should not be any legal impediment in our application of this pesticide registration certificate. As stated in the paragraphs headed “Risk Factors — we are subject to risks in relation to Agreement C”, we cannot guarantee that the outstanding certificate for pesticide registration will be issued to us and whether AraGon’s customers’ approval can be obtained.

In light of the above-mentioned underlying conditions, AraGon is not obligated to place any purchase order for our mosquito sprays from us up to the expected contract sum of approximately US\$36.30 million under Agreement C. However, on the other hand, if all the above underlying conditions are fulfilled and AraGon has placed purchase orders on us, we are contractually bound to produce and deliver the products to the FOB port in the PRC as designated by AraGon for onward delivery by AraGon to countries in Africa and Middle East such as the Republic of Ghana, Algeria, Democratic Republic of the Congo, Mauritania, Egypt, Senegal in the manner set out in Agreement C.

It is the mutual intention of both our Group and AraGon to continue and further expand our business cooperation in the future. Therefore, we expect that the amount of purchase from AraGon would increase if the underlying conditions in Agreement C are fulfilled (which is beyond our control) and AraGon purchases products from us and resell the same to its customers in the above countries in the future and by that time, AraGon will become one of our major customers in the coming years and thereby we can significantly reduce our reliance on US Company B.

AraGon cannot ascertain the number of its customers who are expected to purchase from AraGon our products under Agreement C for the time being as its customers have to have obtained import licences of their own countries and funding from aided organisations.

The major terms of Agreement C are summarized hereunder:

- *Duration*: save for the confidentiality clause, Agreement C shall become effective, and the one-year period within which we are to supply products to AraGon shall commence, when the customers of AraGon confirm in writing of the purchase amount of our products. As the first purchase order was made in June 2013, it is expected that the Agreement C shall have commenced in June 2013 and will expire in June 2014. The agreement shall expire upon full performance or discharge of all obligations of the parties thereunder. According to the delivery schedule attached to Agreement C, the sale and purchase under the agreement shall be finished within the period of one year. There is no renewal clause in Agreement C.
- *Minimum Purchase Commitment*: the agreement does not provide for minimum purchase commitment.
- *Pricing*: the agreement stipulates a specific price for the mosquito sprays as initial price, which shall be subject to review and (where necessary) adjustment every three months taking into account factors, namely the price fluctuation of raw materials (which, as confirmed by the Directors, mainly include aerosol cans and butane gas) and the official exchange rate between

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RMB and US\$. The initial price of the products shall be further subject to annual review and adjustment (where necessary) based upon the average prices for raw materials in the PRC market, etc. As such, the contract price of our products will be subject to fluctuation of raw materials and exchange rate for an utmost period of one-year only. The impacts of fluctuation of raw materials (which, as confirmed by the Directors, mainly include aerosol cans and butane gas) and exchange rate between RMB and US\$ are illustrated in the sensitivity analysis set out in the paragraph headed “Sensitivity Analysis” under the section headed “Financial Information” in this prospectus.

In determining the price of our mosquito sprays under Agreement C, we will base on, *inter alia*, the market price of raw materials plus a mark-up of approximately 20%. The estimated gross profit margin under the Agreement C is expected to be lower than our existing CMS insecticides products during the Track Record Period. Despite the aforesaid, in view of the estimated large production volume under the Agreement C and AraGon’s connection with the government and non-government organisations in Africa and the Middle East and the aided organisations against malaria, which would help our products entering into the new markets in Africa, we take the view that the initial price of our products under Agreement C is still fair and reasonable.

- *Delivery and Payment*: we will deliver our products to the PRC ports on a FOB basis in separate batches on or before the delivery dates set out in the delivery schedule under the Agreement C. For each delivery, AraGon shall make a payment to us under a letter of credit payable in U.S. dollars. The letter of credit shall be available against our drafts drawn on the issuing bank for the relevant percentage of the invoice price of each delivery accompanied by shipping documents in relation to the delivery. We understand that AraGon will then by itself arrange for onward delivery of the mosquito sprays to their customers’ countries.
- *Designated Supplier*: based upon mutual agreement between AraGon and us, an Independent Third Party has been designated as the supplier of nozzles and lids for all our products to be manufactured and supplied to AraGon under Agreement C. We have not entered into any price-locking arrangement nor any arrangement with the designated nozzle supplier and suppliers of other raw materials for the productions of products under Agreement C.
- *Exclusivity*: the agreement does not confer on us exclusivity in the supply of the products to AraGon. AraGon can therefore engage other manufacturers in the PRC to manufacture mosquito sprays bearing its trademarks without any restriction. There is a potential competition between our Group and other manufacturers engaged by AraGon. To the best knowledge and belief of our Directors and based on AraGon’s verbal representation, AraGon has not appointed any other manufacturers for production of mosquito sprays in the PRC as at the Latest Practicable Date.
- *Non-Competition*: there is no non-competition clause in Agreement C.
- *Default and penalties*: If we fail to deliver our products to the FOB port on or before the delivery date outlined in the delivery schedule under the agreement and to be confirmed in individual sales contract with AraGon in the future, we will be liable to pay liquidated damages to AraGon in an amount of 1% of the relevant contract price, and an additional 1% for each

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subsequent week. Thus, unless we have paid the 1% weekly penalty set out above, it is also provided in Agreement C, *inter alia*, that if we default in performing obligations under Agreement C; or fail to perform delivery obligations under Agreement C in general, which entitles AraGon to terminate Agreement C, we have to pay liquidated damages in the amount of 3% of the relevant contract sum. In such circumstances, AraGon is entitled to terminate Agreement C as well.

- *Termination*: Agreement C provided that it may be terminated either (i) by mutual written consent of the parties, or (ii) by one party if the other party loses its capacity or breaches a number of material terms in the agreement, including, on our part, the obligation to deliver goods on time and at required quality standards, and on the part of AraGon, the obligation to make payment of the contract price.
- *Warranty Period*: there is a 24-month warranty period for our products and failure which, we shall be responsible for the loss and damages arisen therefrom.
- *Return Policy*: there is no return policy in Agreement C. Despite the aforesaid, it is provided in Agreement C that upon inspection of our products in the FOB port, if the products are found to be missing, defective or damaged, these missing or default products have to be replenished or replaced at our own costs.
- *Indemnity from AraGon in the event of infringement*: there is no indemnity provision in Agreement C which entitles us to claim indemnity from AraGon if AraGon and/or our company are being claimed by any third party for production of products bearing AraGon's trademarks with or without using the formula provided by AraGon. We take the view that if AraGon or our Company is being sued for infringement of third party intellectual property rights, both of us would have a good defence on the grounds that (i) AraGon has duly registered its trademarks in both Germany and the PRC and has submitted applications for registration in some other countries; (ii) it has commenced business using the trademarks and should have established certain level of goodwill therein; and (iii) we produce the products on CMS basis in the PRC where the trademarks are duly registered. Nevertheless, pursuant to the first addendum to Agreement C dated 28 July 2013, AraGon agreed that our Group shall be exempted from all liabilities arising from any third party claims related to our use of the trademark "AraGon". As confirmed by the PRC Legal Adviser, such addendum to the Agreement C is binding on both AraGon and us.
- *Ownership of the formulas*: We acknowledge that the sample and specifications for the goods (which shall include the formulas thereof) shall be the intellectual property of AraGon.

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We entered into two addendums to Agreement C with AraGon for the purpose of amending certain terms of Agreement C. Details of the two addendums are as follows:

- *First Addendum dated 28 July 2013:* AraGon warrants that it is the owner of the trademarks “AraGon” and “AraGon Net” and we are entitled to use the trademark in manufacturing the mosquito products on CMS basis in accordance with the specific order number written in the individual sales contract. We shall therefore be exempted from all disputes arising from any claims related to our use of the trademark “AraGon” when we produce the products on a CMS basis in the PRC.
- *Second Addendum dated 5 August 2013:* AraGon acknowledges that we do not have the pesticide registration certificate for production of mosquito sprays covering 30 million cans of mosquito sprays and it would not place any purchase order on us for mosquito sprays covered by this outstanding pesticide registration certificate until we have obtained the same and it would render all reasonable assistance to us in our application for the pesticide registration certificate in the future. AraGon further confirmed that our lack of the outstanding pesticide registration certificate shall not constitute a breach of Agreement C.

AraGon has placed the first purchase order on us on 5 June 2013, pursuant to which we manufactured 190,800 cans of mosquito sprays for resale by AraGon to its customer in Tema port of the Republic of Ghana in West Africa. The price to be paid by AraGon under this order is approximately US\$134,000. AraGon paid a down payment of approximately US\$40,000 by 24 June 2013 and according to Agreement C, the entire price would be settled after delivery of the products and inspection of the quality inspection of the products by AraGon or any third party designated by it or the FOB port in the PRC. The agreed delivery date is 15 July 2013. The purchase made under the order had been fully delivered and completed and we received the balance of the contract price on 26 August 2013.

Measures taken by us to ensure the collectability of contract sum under Agreement C: To control the credit risk arising from Agreement C, we have taken the following measures: (i) payments to Ludao (PRC) will be made by letters of credit issued before delivery of the products to AraGon; (ii) according to the payment arrangement of the first purchase order placed by AraGon on Ludao (PRC), our Directors believe that AraGon should have received deposit from its customers so that it could pay the deposit to Ludao (PRC) correspondingly; and (iii) pursuant to the terms of Agreement C, AraGon’s customers will provide a written confirmation that it agrees to pay the investment amount (i.e. the contract sum) and AraGon will inform Ludao (PRC) accordingly thereafter.

Our research and development department, after examining the product formula provided by AraGon, takes the view that if AraGon places purchase orders on us for production of 50 million cans of mosquito spray, which is subject to the underlying conditions beyond our control, due to the economic scale of production of these mosquito sprays, the manufacture of these mosquito sprays with the formula developed by AraGon can be handled at a comparatively low cost though no price-locking arrangement with the designated nozzle suppliers has been entered into by us regarding the Agreement C.

AraGon represented to us that the trademarks of all its products will be registered in the countries where its use is intended. As at the Latest Practicable Date, the trademarks of “AraGon” and “AraGon Net” are duly registered in Germany and the PRC by its shareholder and itself respectively, and it had submitted trademark applications in World Intellectual Property Organisation which is intended to take

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effect in European Commission, Oman, Egypt, Turkey, Morocco and Algeria. According to the relevant searches conducted, we note that AraGon is not involved in any litigation related to the intellectual property rights of its formula of insecticides. As advised by our PRC Legal Adviser, according to the PRC Trademark Law and Patent Law, as the trademark of “AraGon” and “AraGon Net” are duly registered in the PRC, the chance of being claimed by any third party against us for production of AraGon’s products bearing such trademarks on a CMS basis is rather low as AraGon is the registered owner of such trademarks in the PRC. However, if the mosquito sprays that AraGon engages Ludao (PRC) to manufacture are found to have infringed the intellectual property rights of third parties in the PRC, Ludao (PRC) has to cease the manufacture and sale of the infringed products and other infringing acts. Furthermore, Ludao (PRC) may be required to compensate the owner of the relevant intellectual property right the actual damages it has suffered or a fine in the amount below RMB0.50 million as for trademark infringement and in the amount between RMB10,000 to RMB1.00 million as for patent infringement if actual damages cannot be proved. Please also refer to the section headed “Risk Factors — Risks in relation to intellectual property rights”. Subject to the fulfilment of all the underlying conditions set out above, including but not limited to AraGon’s customers having obtained the requisite import licences and the requisite funding from aided organisation, AraGon may, but is not obliged to, purchase certain mosquito sprays from us in a total amount up to approximately US\$36.30 million under Agreement C.

We take the view that it is not necessary to increase 100% of our production capacity in order to fulfill the production requirements under Agreement C as (i) AraGon may not place purchase orders for the entire amount of 50 million cans of mosquito sprays at one time as its customers have to fulfill the import licence requirement and the funding requirement beforehand, and thus, we should have sufficient time to plan the production schedule ahead; and (ii) the production requirement for 50 million cans of mosquito sprays is merely an expected amount of production, which may or may not happen, even if all underlying conditions set out above for the full implementation of Agreement C can be fulfilled.

As an interim measure for production of 20 million cans of mosquito sprays, we plan to assign three production lines for two shifts of 8 hours each per day and deploy an additional 30 workers for the operation of the additional shifts of these three production lines. Assuming all conditions under Agreement C are fulfilled and for production of 50 million cans of mosquito sprays, as an interim measure, we plan to assign six production lines for an additional 8 hours shift per day and deploy an additional 60 workers for the additional shifts. Given each production line produces approximately 28,000 cans of mosquito spray per 8-hour shift each day, the estimated additional production capacity will be increased by approximately 52.4 million cans per year.

Our OBM customers

Our distribution network

During the Track Record Period, our OBM customers were mainly our Distributors, but also included our Referred Customers and Direct Customers.

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The table below sets out our OBM sales during the Track Record Period by classification of distribution, sales to Referred Customers and sales to Direct Customers, which would be supported by the distribution agreements and/or sales orders, receipts and other relevant documents:

OBM Customers During the Track Record Period	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	% of		% of		% of		% of		% of	
	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue
Sales to Distributors (not taking account sales to Referred Customers)	5,900	3.88%	6,848	3.22%	25,360	11.09%	7,732	17.03%	9,744	17.93%
Sales to Referred Customers	7,465	4.90%	9,779	4.60%	12,844	5.61%	925	2.04%	—	—
Sales to Direct Customers	138	0.09%	5	0.00%	8	0.00%	1	0.00%	—	—
Total	13,503	8.87%	16,632	7.82%	38,212	16.70%	8,658	19.07%	9,744	17.93%

During the Track Record Period, we did not open or operate any retailing outlets or sales points for direct sales of our OBM products to end customers. Instead, we sold our OBM products through a distribution network located in the PRC. Our Distributors sold our OBM products to their customers (including but not limited to wholesalers, retailers, groceries, cosmetics stores, trading companies and department stores in the PRC). Our distribution network, comprising 17 Distributors as at 31 December 2010 increased to 97 Distributors as at 31 December 2012. During the initial stage of our OBM business, we exercised stringent criteria in selection and retention of our Distributors. As such, the numbers of Distributors in 2010 and 2011 were restricted to below 20 and we did not renew the distributorship of these Distributors who failed to achieve the sales targets stipulated in their distribution agreements or agreed between us and the Distributors beforehand. As such, the average length of business relationship with our Distributors, save for Yiwu Weiwei, is approximately one to two years. Our Distributors would sell our OBM products to their customers mentioned above in the PRC and would also refer customers to us for the purchase of our OBM products. As from 2012, we have implemented our plan to expand our OBM business and then we recruited 83 new Distributors for distribution of our OBM products in the PRC in 2012.

By entering into distribution agreements with Referred Customers and Direct Customers and recruiting new Distributors in 2013, the number of additional Distributors increased from 83 for the year ended 31 December 2012 to 166 for the three months ended 31 March 2013. Our OBM sales increased from approximately RMB8.66 million for the three months ended 31 March 2012 to approximately RMB9.74 million for the three months ended 31 March 2013 despite our sales to Yiwu Weiwei had decreased by approximately 97.2%, from approximately RMB7.12 million to approximately RMB0.2 million during the corresponding period. The decrease in our sales to Yiwu Weiwei without trading off our total OBM sales for the three months ended 31 March 2013 has demonstrated our success in alleviating our reliance on Yiwu Weiwei in OBM sales.

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The following table sets out the movements in the total number of Distributors of our OBM products during the Track Record Period:

	Year ended 31 December			Three months ended
	2010	2011	2012	31 March
	2010	2011	2012	2013
Opening balance	11	17	17	97
Additions	16	14	83	166
				<i>(Note)</i>
Terminations/expiration	10	14	3	—
Total number of Distributors as at the end of the relevant year/period	17	17	97	263

Note: Out of the additional 166 New Distributors, 130 had been our Referred Customers in 2012.

The increase of the number of Distributors from 97 in 2012 to 263 as at 31 March 2013 was mainly due to the fact that we had entered into written distribution agreements with Distributors who used to be our Referred Customers and Direct Customers in the past and that we had successfully developed some new OBM customers as our distributors. Since 2013, we have abolished all arrangements with Referred Customers and Direct Customers. As such, among the 263 Distributors as at 31 March 2013, there were 134 Distributors who had contributed sales to the Group and 129 Distributors who had not contributed sales to the Group for the three months ended 31 March 2013.

Our Directors confirm that all terminations or non-renewal of distribution agreements during the Track Record Period were initiated by us because of the relevant Distributors' failure to achieve the sales targets stipulated in their distribution agreements.

Our Directors further confirm that the selection criteria of Distributors have not been changed in 2012, and the increase in the number of Distributors in 2012 was mainly due to the fact that our brands in OBM products are getting more market recognition after a few years of development in the inception stage coupled with our plan to develop our OBM business in 2012. However, in approving Referred Customers as our new Distributors, apart from the general selection criteria applicable to selection of new Distributors, we also consider, among others, the Referred Customers' total purchase amount in the past, the year of business relationships with us, their payment record and their potential in assisting us in developing new distribution areas in the future. The 130 Referred Customers who had become our Distributors in 2013 had over one year of business relationship with us, which allowed us to have sufficient time to observe whether they could satisfy the above criteria. The Directors confirmed that the amount of sales contributed by the 130 Referred Customers for the three years ended 31 December 2010, 2011, 2012 and for the three months and eight months ended 31 March 2013 and 31 August 2013 was approximately RMB2.81 million, RMB3.17 million, RMB10.59 million, RMB4.08 million and RMB17.03 million respectively.

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As at the Latest Practicable Date, our distribution network had attained a wide coverage across 29 provinces, autonomous regions and municipalities in the PRC. The following table shows detailed information on the layout of our distribution network in the PRC:

<u>Province, autonomous region or municipality of the PRC</u>	<u>No. of Distributors as at the Latest Practicable Date</u>
Anhui (安徽)	20
Chongqing (重慶)	2
Fujian (福建)	9
Gansu (甘肅)	1
Guangdong (廣東)	10
Guangxi (廣西)	11
Guizhou (貴州)	11
Hainan (海南)	1
Hebei (河北)	12
Henan (河南)	12
Heilongjiang (黑龍江)	5
Hubei (湖北)	13
Hunan (湖南)	25
Inner Mongolia (內蒙古)	6
Jilin (吉林)	5
Jiangsu (江蘇)	21
Jiangxi (江西)	14
Liaoning (遼寧)	6
Ningxia (寧夏)	1
Qinghai (青海)	1
Shaanxi (陝西)	12
Shandong (山東)	25
Shanghai (上海)	6
Shanxi (山西)	8
Sichuan (四川)	9
Tianjin (天津)	2
Xinjiang (新疆)	3
Yunnan (雲南)	18
Zhejiang (浙江)	35
Total	304

Our Directors confirmed that, save for Yiwu Weiwei, which is a Connected Person and details of which are disclosed under the section of “Connected Transactions” of this prospectus, all other Distributors as at the Latest Practicable Date were Independent Third Parties.

Our relationship with our Distributors is of the sole nature of seller/buyer relationship and not that of principal/agent relationship. To the best of our Directors’ knowledge, information and belief, after making all reasonable enquiries, there was no relationship between the terminated Distributors and new Distributors.

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We plan to further expand our distribution network in the future by entering into legally binding distribution agreements with more distributors and encouraging current Distributors to establish more points of sale for our OBM products. Under the recommendations of our internal control adviser, we have been gradually implementing a series of measures to improve our management over Distributors so as to ensure that all OBM sales will be made through Distributors who have entered into distribution agreements with us, efficiently and effectively. For further details in this aspect, please refer to the paragraph headed “Business — Business Strategies — We plan to further develop our OBM business” of this prospectus.

Management of our distribution network

From the selection of distributors to ongoing monitor and assessment of their performance, we implement a comprehensive system to manage our distribution network through Distributors. When selecting new distributors, we take into consideration the following aspects of candidates:

- their experience in the distribution of aerosol products;
- retail and brand management experience;
- logistics and distribution capacities;
- financial resources;
- credit-worthiness;
- sales network and connection in the local market

Once new Distributors are selected, we enter into distribution agreements with them, which lay down the terms and conditions for their sales of our OBM products. The duration of these distribution agreements save for our distribution agreement with Yiwu Weiwei, as determined on a case-by-case basis, generally vary from approximately one year to two and a half years. Our distribution agreements generally contain the following principal terms:

- *Distribution territory:* each Distributor is permitted to sell or distribute our products only within the designated areas in a particular distribution territory in the PRC as stipulated in the relevant distribution agreement (the “**distribution territory**”). We do not appoint multiple Distributors for the same brands of our products in a particular territory where we believe that appointing multiple Distributors in a single territory would cause cannibalisation among the Distributors or otherwise adversely affect the sale of our products in the local market. We may appoint more than one Distributor in a territory where we are of the view that it is feasible and appropriate based upon our knowledge of the relationships between the Distributors, their sales channels and the conditions of the local market. During the Track Record Period, we are not aware of any material cannibalisation among Distributors. If a Distributor breaches the restriction regarding its distribution territory, depending on the circumstances, we may impose monetary penalties, or in extreme cases, terminate the distribution agreement.

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- *Pricing policy:* as elaborated in the section headed “Business — Sales and Distribution — Pricing”, our pricing policy for OBM products is generally comprised of (i) a uniform wholesale price at which we provide products to our Distributors, and (ii) minimum price levels for our Distributors to resell our products either through retailing or sub-distribution. Generally, the minimum price level is either our uniform wholesale price or 110% thereof.

Our Directors believe that this pricing policy, together with the above-stated geographical restriction related to distribution territory, have, and will continue to effectively minimize the risk of market cannibalisation among our Distributors.

- *Sales target:* each distribution agreement provides for an annual, quarterly and/or monthly sales target(s) for the relevant Distributor. Depending on the specific provisions in each distribution agreement, it is mandatory of the Distributors to achieve either the sales targets or a percentage of them, usually from 60% to 70%. Where a Distributor fails to achieve the aforesaid, depending on the circumstances, we may deprive it of the geographical exclusivity, if applicable, by finding new distributors in the relevant distribution territory, degrading the Distributor to sub-distributor under new Distributors or, in extreme cases, terminating business relationship with the Distributor. Save for this, our Directors confirm there are no pecuniary penalties on Distributors failing to achieve their sales targets or relevant percentages thereof. Our Directors further confirm that for the three years ended 31 December 2010, 2011 and 2012, there were 2, 7 and 80 Distributors who had failed to achieve the sales targets (or the relevant percentages of such targets) but we continued their distributorship for our OBM products. Our Directors confirmed that we did not terminate our distribution agreements with these Distributors mainly because of two reasons: (i) for some Distributors, the markets they are responsible for are relatively undeveloped and are located in isolated areas in the PRC, and it was difficult for us to find better distributor candidates to replace these Distributors failing to achieve their sales targets (or the relevant percentages thereof); and (ii) for other Distributors who had failed to achieve their sales targets (or the relevant percentages thereof), we believe their sales performance will improve based upon their growth potential, local distribution channels and market resources.
- *Initial purchase commitments:* generally, our distribution agreements provide that the Distributors shall make their first purchase from us within a stipulated period of time (usually several days) from signing of the distribution agreements. During the Track Record Period, the amount of such initial purchase generally ranged from RMB5,000 to RMB200,000. Since the implementation of the new distribution system, we generally only require the Distributors to make first purchase within a time limit from signing of the distribution agreements, and we no longer stipulate the exact amount of such first purchases.
- *Profit sharing Bonus:* for some of our Distributors, as an incentive for them, our distribution agreements with them provide that if they achieve the above-mentioned sales targets or a percentage thereof (usually 80% prior to 2013), they will be rewarded with a profit-sharing bonus. Our Directors confirmed that during the Track Record Period, the profit sharing we actually rewarded to the Distributors were generally controlled within a range from 1% to 5%. In 2013, after the implementation of the new distributor management system as elaborated in the paragraphs headed “Business — Internal Control and Corporate Governance Measures” of this prospectus, all profit-sharing bonuses offered under new

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distribution agreements have been fixed to: (i) 0.5% over the annual regional sales amounts in the cases of regional Distributors, and (ii) 2% over the Distributors' sales revenue in the cases of ordinary Distributors. In most cases, the bonus is provided by way of rebate in kind. Based on past experience and the probability of such payment is low, no financial impact was noted on our financial statements during the Track Record Period.

- *Product return policy:* we allow our Distributors to return or change our products with quality problems within six months after our products are sold to the Distributors. We generally do not accept return of product on the grounds other than product quality problems. However, for aerosol insecticides, as the sales of which is affected by seasonality, before the implementation of the new distribution system in 2013, we generally allowed our Distributors to return part of their unsold goods by the end of each sale season. Our Directors confirmed that predominantly, the amount of unsold aerosol insecticides returned by Distributors were controlled under 6% of their total purchase amount. Our Directors confirm that the sale season of each year ends in July, and in practice, we allowed our Distributors to return unsold insecticide products after July and before November each year.

Based on our past experience and the fact that the probability of return of our OBM products from the Distributors is rather low, no financial impact was therefore noted on our financial statements during the Track Record Period. Our Directors believe that our arrangement regarding the returned goods set out above is in line with industry practice. The return period for the sales of our OBM products taken place during the Track Record Period has not lapsed as at the Latest Practicable Date. The amount of sales for which the return period has not lapsed as at 31 December 2012 and as at the Latest Practicable Date was approximately RMB1.79 million and approximately RMB3.81 million respectively. The amount of aerosol insecticides returned for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 was approximately RMB0.07 million, RMB0.04 million, nil and RMB1,000, respectively.

The return of unsold good is being net-off in the revenue and recognized in the financial statements.

Since the implementation of the new distribution system in 2013, we generally no longer allow Distributors to return products on grounds other than product quality problems.

- *Intellectual property rights:* each distribution agreement contains provisions prohibiting the Distributor from selling counterfeit products or using our name for any purposes other than the sale of our products.
- *Sub-distribution and retailing:* Distributors shall endeavour to increase the sales of our products by operating or engaging sub-distributors to expand points of sale for our products.
- *Stock upon termination of cooperation:* some of our distribution agreements contain a provision that upon termination of our business relationship with our Distributors, we will assist the Distributors to handle their stock of our products. In practice, upon termination of cooperation with a Distributor, we generally allow the Distributor to negotiate with our new Distributors for sale of its stock. Thus, we did not need to and we had not assisted the

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outgoing Distributors to sell their unsold stock upon termination of the relevant distribution agreements. Our Directors confirm that in practice, we do not have any obligation to ensure that our new Distributors will accept the stock, nor are we obligated to help handle the stock in other ways. Our Directors confirm that there was not any material accumulation of stocks at the Distributors' level during the Track Record Period and up to the Latest Practicable Date. To the best knowledge of our Directors, there were no relationships between the outgoing Distributors and the new Distributors.

- *Renewal of distribution agreements:* our distribution agreements typically contain a provision to the effect that within one month prior to the expiry of the agreement, the Distributor and our Group may negotiate for the terms of a new distribution agreement if both parties are willing to continue the distributorship.

We monitor our Distributors on an ongoing basis in respect of their compliance with the terms of the distribution agreement, in particular, our pricing policy and the restriction on sale of our OMB products within the designated distribution territories, etc. It is our Company's policy that our sales staff should visit the Distributors at least once every month so as to, *inter alia*, conduct inspections on whether these Distributors have complied with our Group's policies on pricing, and among other things, taking up the unsold products by the incoming Distributors from their predecessors and geographical allocation of markets from frequent contacts by meetings and telephone calls so as to ensure that the disposal of the products by the outgoing Distributors to the incoming Distributors will not affect our Group's business adversely and to ensure that our Distributors comply with our pricing policy and geographical exclusivity on an ongoing basis. To tighten our management on our Distributors, we have implemented the distributor management control system based on the advice of KL CPA Limited, an independent internal control adviser. For details, please refer to the section headed "Business — Internal Control and Corporate Governance Measures" of this prospectus.

Upon the expiry of the distribution agreements, we further conduct review on the performance of the Distributors to decide whether to renew the agreements.

Our Directors confirm that we have maintained frequent contacts with our Distributors by meetings and telephone calls. We also conducted visits to the retail shops which have put our products for sale on their selves so as to obtain their feedbacks on the sales portion of our OBM products, market demands for our OBM products and customers' responses to our products and exchange information about the market trend about our products. By so doing, we can ensure that the sales growth of our OBM products would reflect market demand rather than accumulation of inventory at the Distributor or their sub-distributors' level.

Our independent internal control adviser does not note any material deficiency in the our process in the selection of Distributors. The significant number of Distributors failing to meet the sales target in year 2010 and 2011 was, in the Directors' view, due to the fact that our OBM business was in the inception stage at that time and our OBM brands had not yet gained popularity and acceptance in the market in these two years. For further details of termination, see "Risk Factor — We experienced drastic changes in the number of our Distributors during the Track Record Period".

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As at the Latest Practicable Date, we have implemented the following measures to mitigate the risk of cannibalisation:

- When we develop or introduce any new OBM product in the market, we shall enquire the sales position of the then existing OBM products so as to ensure that (i) no Distributor is forced to sell the existing products in a big discount in order to clear the inventory of the existing product; or (ii) it will not result in any reduction in sales volume, sales revenue or market share of the existing products;
- We shall conduct two meetings per year with our regional Distributors for the purpose of, among other things, confirming the sales amount with the ordinary and regional Distributors monthly and making enquiries with sub-distributors and retailers to enquire the sales status of our OBM products and tracking their inventory level of our products so as to make sure that the Distributors do not have to sell unsold products at a discount; and
- We keep a register about the distribution channels for each ordinary Distributor. In the circumstances that a new ordinary Distributor proposed to distribute through an existing distribution channel, we shall assess the proposed sales amount and compare that against the performance of the existing ordinary Distributor before changing to the new ordinary Distributor for the same distribution channel. Since the implementation of the improved distributor management system, we have not noted any significant cannibalisation and we therefore take the view that the measures are effective.

Based on the existing mode of operation and upon recommendations by our independent internal control adviser, we have designed an improved distribution management system which was launched in January 2013. For details, please refer to the below paragraph headed “Business — Internal Control and Corporate Governance Measures” of this prospectus. As at the Latest Practicable Date, the number of regional and ordinary Distributors appointed after the implementation of distributor management system were 6 and 298 respectively.

Our Referred Customers and Direct Customers

During the Track Record Period, we allow our Distributors to refer customers to directly purchase our OBM products from us, i.e. the Referred Customers. Sales to these Referred Customers and sales to those Distributors who have referred customers to us were kept under separate entries in our internal accounting, but calculated together as sales to those Distributors when determining whether these Distributors have fulfilled the sales targets set for them in the relevant distribution agreements. By so doing, we can keep track of the sales to the Referred Customers. For the three years ended 31 December 2010, 2011 and 2012, sales to these Referred Customers respectively amounted to approximately RMB7.47 million, RMB9.78 million and RMB12.84 million, representing approximately 55.28%, 58.79% and 33.61% of our OBM sales, and 4.90%, 4.60% and 5.61% of our total revenue. We have not entered into any binding agreements with such Referred Customers. Our Directors confirm that no referral fee has been paid by us to Distributors for referring customers to us.

Our Directors confirmed that we sold OBM products to Referred Customers during the three years ended 31 December 2010, 2011 and 2012 because at that time, in particular in 2010 and 2011, our OBM business was still in the development stage, we believed that by so-doing, it would boost the sales of

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our OBM products and therefore expand the market presence of our OBM products and promote the overall awareness of our own brands, whereas at the same time, it would enable the Distributors to reach the minimum sales volume committed by them in the respective distribution agreements. Further, during the developing stage of our OBM business, we had not yet devised a comprehensive system to manage our distribution network. Our Group, in retrospect, note that these Referred Customers which were not bound by any distribution agreement with us, could sell our products in different geographic territories and/or at lower prices to cannibalise each other, which would affect the development of our OBM business. We have therefore stopped selling products to Referred Customers since January 2013.

Apart from the Referred Customers, during the three years ended 31 December 2010, 2011 and 2012 we also sold our OBM products to the Direct Customers, who also had not entered into any distribution agreements with us and were not referred to us by Distributors, and accordingly, sales to the Direct Customers were recorded separately in our accounting instead of under sales to certain Distributors.

As elaborated in the paragraphs headed “Risk Factors — We have limited control over our OBM distribution and resale channels” of this prospectus, we did not enter into any distribution agreement with the Referred Customers and Direct Customers during the three years ended 31 December 2010, 2011 and 2012 though some of them purchased our products for resale purposes. Consequently, there was a risk that such Referred Customers and Direct Customers might have caused disorders in our market allocation and pricing policy, thereby cannibalizing each other and other parties in our OBM distribution and resale channels and disturbing our entire OBM sales system during the three years ended 31 December 2010, 2011 and 2012. Our Directors confirmed that, upon the implementation of the new distributor management system elaborated under the section of “Business — Internal Control and Corporate Governance Measures” of this Prospectus, we have also implemented a policy that before making any purchase from us, all our OBM customers shall enter into binding agreements with us to lay down their obligations in reselling our OBM products such obligations include but are not limited to our pricing policies and as geographic exclusivities.

Credit Policies

Credit policies for our CMS customers

Generally, we require our CMS customers to pay in advance part of the purchase price each time they make purchase orders with us. Depending on the creditworthiness of individual customer, the advance payment may range from 20% up to 50% of the purchase price. If an CMS customer has had long-time cooperation with us and has maintained a good credit record, we sometimes only require them to pay to us a deposit to secure their payment obligations in relation to their future purchases from us, and upon paying the deposit, this CMS customer is not required to make any further advance payment when placing purchase orders with us. We keep the bill of lading when handing our products for delivery, and would not release the bill of lading until the customer has paid the purchase price in full.

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Credit policies for our OBM customers

For our OBM sales, before 2012, we generally required our Distributors to pay the purchase price in full before we delivered our products. During the Track Record Period, we granted to some of our major Distributors with established trading records certain credit periods, details of which are set out below.

Credit Policies for OBM customers other than Yiwu Weiwei

For the three years ended 31 December 2010, 2011 and 2012, we granted 30 days to 90 days credit periods to some major Distributors other than Yiwu Weiwei with higher sales target generally.

Credit Policy for Yiwu Weiwei

As Yiwu Weiwei was the largest Distributor of our OBM products during the three years ended 31 December 2010, 2011 and 2012, we granted a credit period of 180 days to it as a measure to stimulate our domestic sales. During the Track Record Period, we started to promote the brand awareness and market recognition of our OBM products through leveraging Distributors in the PRC. Given that we could develop our OBM business only with limited resources on distribution networks in the PRC in the inception stage, we did not have much bargaining power to get more favorable terms from Yiwu Weiwei at that time and we also intended to leverage on the established distribution network of Yiwu Weiwei during the inception stage of our OBM business. As such, we granted a relatively longer credit term of 180 days to Yiwu Weiwei.

However, towards the end of the Track Record Period, our brands under the OBM business had been gaining more popularity whereby we had built up the capability to identify and recruit more Distributors for the distribution and sales of our OBM products in different territories of the PRC. As at 31 December 2010, 2011, 2012 and 31 March 2013, our total number of Distributors for OBM products was 17, 17, 97 and 263 respectively. Our sales from OBM products represented a CAGR of approximately 68.22% during the period in 2010 to 2012. While we gained more bargaining power over Yiwu Weiwei during the Track Record Period as aforesaid, we relied less on Yiwu Weiwei for the sale and distribution of our OBM products. For the three years ended 31 December 2010, 2011 and 2012, the percentage of our sales to Yiwu Weiwei to total OBM sales were approximately 28.30%, 37.42% and 39.83% respectively. However, the percentage of our sales to Yiwu Weiwei to our total OBM sales dropped significantly from approximately 82.28% for the three months ended 31 March 2012 to approximately 2.00% for the three months ended 31 March 2013.

In light of the above, the credit term granted to Yiwu Weiwei has been changed from 180 days during the Track Record Period to cash on delivery pursuant to the term of the new Yiwu Weiwei Distribution Agreement (which is in line with other Distributors in general whilst those major Distributors with higher sales target will be given 30 days to 90 days credit period). Yiwu Weiwei has to reach 100% or more of its annual sales target before it can be entitled to our rebate (which is in line with other Distributors in the developed distribution areas whilst prior to 2013, Distributors in those developed distribution areas will be entitled to our rebate only when they have reached at least 80% of their sales target). The estimated purchase amount from Yiwu Weiwei is expected to decrease in the

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future as we have appointed an additional Distributor of our OBM products in the Yiwu City. For details, please see the paragraph headed “Yiwu Weiwei Distributor Agreement” in the “Connected Transactions” section of this prospectus.

Despite the comparatively long credit term of 180 days granted to Yiwu Weiwei during the Track Record Period, the Sponsor takes the view that the transactions between our Group and Yiwu Weiwei during the Track Record Period were conducted on normal commercial terms taking into account, *inter alia*, (i) the fact that our OBM business was still in the early stage of development during the Track Record Period, whereby we had to leverage on the established distribution network of distributors for expansion; and (ii) Yiwu Weiwei’s contributions in enhancing the brand awareness and market recognition of our OBM products due to its location and distribution network as a whole.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had not experienced any customer’s delay or default in making payment for both CMS products and OBM products.

MARKETING AND PROMOTION

Our sales and marketing department comprised of 47 staff members as at the Latest Practicable Date. They are responsible for the sales and marketing of our products in the overseas and the PRC markets.

We actively participate in domestic and international exhibitions and trade fairs, such as the Canton Fair, ISSA/Interclean Amsterdam, China Yiwu International Commodities Fair (中國義烏國際小商品博覽會(義博會)), etc., to introduce and promote our products to our existing and potential customers.

Our sales and marketing team follows up on contacts established at these exhibitions trade shows by visiting these potential customers in the PRC or overseas, or inviting them to visit our Feng Keng Production Plant.

RESEARCH AND DEVELOPMENT

Our Group places strong emphasis on research and development for the purpose of strengthening our competitiveness in the aerosol industry. Our in-house research and development centre is responsible for conducting and monitoring our research and development activities related to improvement of product quality, development of new products and product designs and improvement of our production efficiency.

As at the Latest Practicable Date, our research and development team was comprised of four staff members. The head of our research and development team, Mr. Wang Xiaobing (王小兵), had over six years of working experience in a subsidiary of China Flavors Group, which is mainly engaged in the provision of flavors and fragrances for various uses including daily chemical products. During the said period, Mr. Wang Xiaobing (王小兵) had held various positions in an PRC operating entity of China Flavors Group, including being an engineer of the daily chemical product center (日化應用中心), technical manager and general supervisor of the department for daily-use fragrance and flavors (日化香精事業部). He was also responsible for research and development on daily chemical products and

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technical communication and services. Of the 4 staff members in our research and development team, 3 are holders of doctoral or master's degree in chemical, engineering or physical science relevant to our industry. The remaining member of the research and development team is a certified Associate Physician* (副主任醫師), who possesses knowledge in health science, that are pivotal to our research and development activities, in ensuring that our products, especially insecticide products, will not cause harm to human bodies. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our research and development expenses amounted to approximately RMB4.97 million, RMB6.88 million, RMB8.45 million and RMB1.65 million respectively.

The employee benefit expenses for the research and development costs amounted to approximately RMB1.32 million, RMB1.50 million, RMB2.59 million and RMB0.93 million for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013. These expenses represented the salaries paid to employees who had been deployed by our Group, on ad hoc basis, to assist the Company in different research and development projects related to our recognition as a High and New Technology Enterprise (高新技術企業) by Zhejiang Provincial Science and Technology Department* (浙江省科學技術廳) and other government authorities during the Track Record Period. When commencing the research and development of a development project, the research and development department of our Group would internally deploy support from relevant departments within our Group, including but not limited to sales department, production department, technical department and quality control department, when it deemed necessary, in order to ensure smooth implementation of the development projects and the feasibility and commercialisation of the products in relation thereto. As confirmed by our PRC Legal Adviser, such arrangement would not have violated any prevailing laws and regulations in the PRC.

In light of the above, 52, 59 and 103 staff members had participated in these research and development projects and their salaries were therefore included in the research and development cost of our Group for the three years ended 31 December 2010, 2011 and 2012. 5, 5 and 11 techniques had been performed by research and development department for the three years ended 31 December 2010, 2011 and 2012.

Our Group has a total number of 253, 237 and 303 staff for the three years ended 31 December 2010, 2011 and 2012.

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Research and development expenses for the three years ended 31 December 2010, 2011 and 2012 consist of the following:

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Staff salaries and benefits			
— Research and development staff salaries	224	185	286
— Non-research and development staff salaries			
— Management	60	101	205
— General and administration	56	38	48
— Production	100	15	333
— Technical support	658	699	1,028
— Sales and marketing	28	11	238
— Finance	12	26	34
— Quality control	164	275	250
— Other	22	3	47
— Staff benefits	—	148	116
Raw material used	2,849	4,143	4,799
Other expenses (<i>Note 1</i>)	798	1,232	1,064
 Total	 4,971	 6,876	 8,448

Number of staff from each department involved in research and development projects for the three years ended 31 December 2010, 2011 and 2012 are as follows:

	2010	2011	2012
Research and development staff	3	5	5
Non-research and development staff salaries (<i>Note 2</i>)			
— Management	2	2	2
— General and administration	2	3	3
— Production	8	3	38
— Technical support	23	24	24
— Sales and marketing	1	2	11
— Finance	1	1	1
— Quality control	11	18	16
— Other	1	1	3
	52	59	103

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Average number of months spent in research and development projects by each staff for the three years ended 31 December 2010, 2011 and 2012 are as follow:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Research and development department	12	8	12
Management	12	9	12
General and administration	12	11	9
Production	8	7	3
Technical support	12	11	11
Sales and marketing	12	4	3
Finance	12	12	12
Quality control	7	7	7
Other	12	2	5

Note 1: Other expenses represent travelling and transportation expenses, office expenses, telecommunication expenses and miscellaneous expenses incurred in research and development projects.

Note 2: The salaries of non-research and development staff are apportioned on a monthly basis.

Note 3: Roles of each department

- Management: To work alongside the research and development department to set the direction of each research and development projects, approve each project and monitor the time used for each project.
- General and administration: To co-ordinate communication between departments within each project.
- Production: To monitor current production process for areas of improvements and develop an effective production process with minimal defect rate for potential products.
- Technical support: To develop product formulas and perform tests on each product.
- Sales and marketing: To perform research on the domestic market, gather intelligence of recent products development and shifts in customer demands.
- Finance: To monitor the cost of each project and report to the research and development department if the expenses of projects is over its preliminary budget.
- Quality control: To provide advice on new product development and whether they comply with the relevant quality and standards.

Note 4: The average number of months is calculated based on the actual total number of months that each research and development and non-research and development staff participated in the research and development projects of each financial year divided by total number of research and development and non-research and development staff.

Based on the opinion of the professional PRC tax adviser who is an Independent Third Party appointed by the Company and the outcome from the consultation with the relevant tax authority, it was noted that we had complied with all the criteria to be qualified as a High and New Technology Enterprise during the Track Record Period.

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Through our research and development, we have successfully mastered a number of technological know-hows such as the silver-nano anti-bacteria household cleaning technique* (納米銀抗菌家居清潔劑技術) and the air purifying and freshening technique* (空氣淨化清新劑技術), which enable our products to possess outstanding qualities or features compared with ordinary products of the same kinds.

Further, we have also registered a number of patents and copyrights in respect of inventions and works by our research and development centre. Please see the paragraphs headed “Intellectual Property Rights of the Group” under Appendix V to this prospectus.

Further, in May 2011, we entered into a co-operative agreement with a third-party research institute operated by a university in the PRC (the “**Research Institute**”) for a term of three years, pursuant to which we work jointly with the Research Institute in the development of new production techniques to increase our production efficiency. According to the co-operative agreement, we will be responsible for providing financial resources for the research and offering summer internship to students of the Research Institute. In return, we will own the intellectual property rights of the research result arisen from our co-operation. If any party puts forward the production techniques which has been jointly developed pursuant to the co-operative agreement and subsequently achieves any new outcome, that party would be entitled to the profits generated from the new outcomes.

Due to our achievements in our research and development activities, we have been recognized with the accreditation of High and New Technology Enterprise (高新技術企業) and other government authorities by Zhejiang Provincial Science and Technology Department* (浙江省科學技術廳) in 2010 and the accreditation of High and New Technology Research and Development Centre at City Level* (市級高新技術研究開發中心) by Taizhou City Science and Technology Bureau* (台州市科學技術局) in 2011. The grant of the status of High and New Technology Enterprise (高新技術企業) with a certificate dated 5 November 2010 (and it was effective retrospectively as of 1 January 2010) had entitled us to a preferential income tax rate of 15% instead of a statutory rate of 25% for the three years ended 31 December 2010, 2011 and 2012. We have applied for renewal of our status of High and New Technology Enterprise in August 2013. On 2 September 2013, Sanmen County Science and Technology Bureau* (三門縣科學技術局), Sanmen County National Tax Bureau* (三門縣國家稅務局), Sanmen County Regional Tax Bureau* (三門縣地方稅務局) and Sanmen County Finance Bureau* (三門縣財政局) together issued a confirmation endorsing our renewal application as a High and New Technology Enterprise (高新技術企業) based on their preliminary review of our renewal application. Nevertheless, as at the Latest Practicable Date, the result of our renewal application, which will determine if we would be entitled to the above tax concession for a further term of three years from 2013, was yet to be known.

In view of the importance of research and development to the success of our Group, we plan to commit more resources to our research and development activities.

PRODUCTION

Our production department devises production plans based on customer demands, our production capacity and inventory levels, and then procures raw materials in accordance with the production plans. As at the Latest Practicable Date, our production department had a total of 153 employees.

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Production facilities

During the Track Record Period, our Group manufactured most of our products through the Feng Keng Production Plant, which was built on a parcel of land of approximately 28,494.21 sq.m.. We are the holder of the land use permit in respect of the above-mentioned land. The land use permit remains valid until October 2052.

We currently operate with ten aerosol production lines and one non-aerosol production line in our Feng Keng Production Plant. All our 11 production lines are equipped with machines and equipment of high-level automation.

The major equipment and machineries equipped for the 11 production lines and their respective functions are set out in the following table:

<u>Facilities of each production line</u>	<u>Function</u>
1 Automatic unscrambler (全自動理瓶機)	Arranging and conveying cans
2 Automatic four nozzles material feeder (全自動四頭灌料機)	Filling liquid material
3 Automatic plug-valve machine (全自動插閥門機)	Plug valve
4 Automatic sealing inflator (全自動封口充氣機)	Sealing and aerating
5 Automatic water-bath detection device (全自動水浴檢測設備)	Water-bath leakage detection
6 Automatic capper (全自動壓蓋機)	Pressing plastic cap
7 Coding band (噴碼帶)	Conveying product can
8 Automatic inkjet printer (全自動噴碼機)	Coding production date

In addition, we have, at our own production facilities in the Feng Keng Production Plant, plastic injection moulding machine for the manufacturing of over caps, a plastic component fitted to aerosol cans to avoid accidental actuation by covering the actuator. After the automatic machineries and equipment as disclosed in the table above have been put in use, some of the tasks in the production process are no longer carried out manually. This can further increase the level of automation and enhance on our production efficiency. Our Directors confirmed that during the Track Record Period, we had not experienced any material disruption of production.

We have devised a series of internal procedures for carrying out regular inspections and maintenance for our major machineries and equipment in accordance with their respective maintenance requirements and conditions so as to ensure that they can function properly. We also implement internal procedures for regular inspections and maintenance of our facilities by different levels. We will check the condition of the production lines, machineries and equipment on a daily basis, in particular, their cleanliness, the functionalities and operating push buttons thereon so as to ensure that they can be used safely.

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During the Track Record Period, we did not experience any significant interruptions in our business and operations nor any prolonged suspension of manufacturing operations arising from failure or breakdowns of machineries or equipment, which may significantly affect the financial position of ourselves.

Production capacity and utilisation

Our Group's production capacity, actual production volume and utilisation rate in respect of aerosol products during the Track Record Period are set out below:

	Aerosol products			Non-aerosol products		
	Production Capacity (in cans) <i>(Note 1)</i> '000	Actual Production Volume (in cans) '000	Utilisation Rate <i>(Note 2)</i> %	Production Capacity (in units) <i>(Note 1)</i> '000	Actual Production Volume (in units) '000	Utilisation Rate <i>(Note 2)</i> %
Year ended						
31 December 2010	77,450	61,111	78.90	2,300	1,519	66.04
Year ended						
31 December 2011	92,200	81,130	87.99	2,300	1,713	74.48
Year ended						
31 December 2012	92,430	83,566	90.41	6,500	5,697	87.65
Three months ended						
31 March 2013	21,250	16,760	78.87	2,500	1,967	78.68

Notes:

1. The production capacity is calculated based on the actual number of one shift of 8 working hours per day and 26 working days per month.
2. The utilisation rate is derived from dividing actual production volume by production capacity.

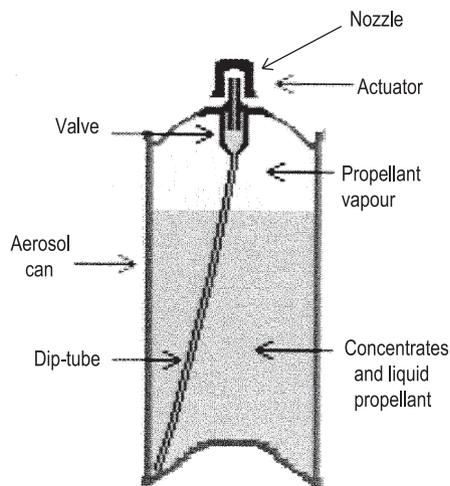
The increase in production capacity in each of the year during the Track Record Period was mainly due to (i) the upgrade of the existing production lines including installation of new parts to increase the efficiency of the relevant production lines; and (ii) the increase in the number of aerosol production lines from nine in 2010 to ten in 2011. For the three years ended 31 December 2010, 2011 and 2012, each aerosol production line can produce on average 27,580 cans, 29,550 cans, 29,630 cans of aerosol products per day, respectively. Due to public holidays in the PRC, the production capacity for the three months ended 31 March 2013 was relatively low as compared to that during the full year of 2012 when prorated.

The production capacity of non-aerosol products had increased from 2.30 million units for 2010 and 2011 to 6.50 million units for 2012. The increase was due to the addition of an automatic capping machine which had increased the speed of the whole production line.

Production processes

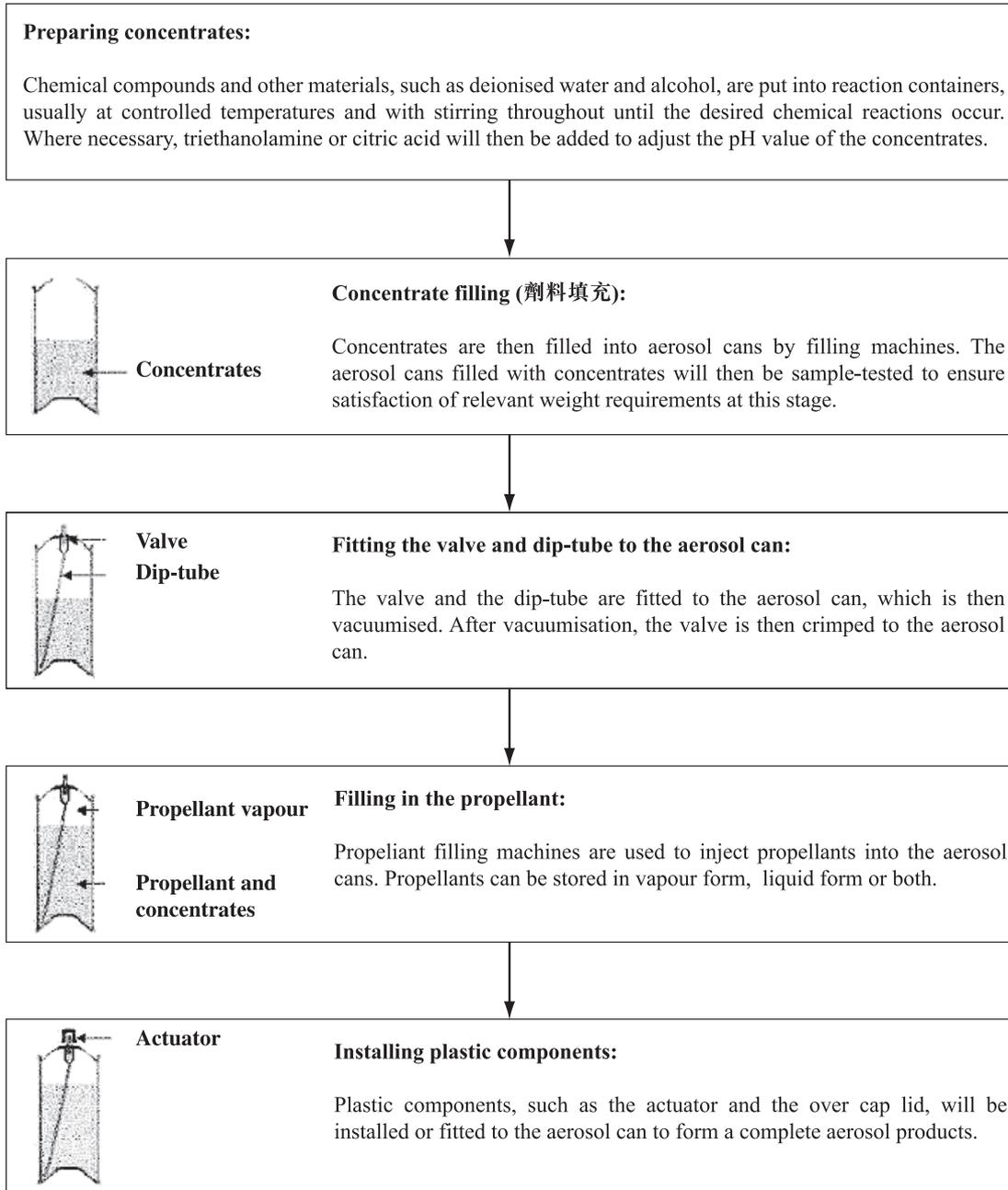
1. *Production process for aerosol products*

The picture below illustrates the major components of an aerosol product:



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The production processes of our products vary for different kinds of products, and the principal steps are illustrated in the diagram below:



2. Production for non-aerosol products

Our non-aerosol products mainly include (i) non-aerosol liquid laundry detergents under the product category of household products, (ii) non-aerosol solid/liquid air-fresheners under the product category of air-fresheners, and (iii) mosquito-repellent incenses under the product category of insecticides.

For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, sales of our non-aerosol products accounted for approximately 2.17%, 1.38%, 6.61% and 14.33% of our total revenue respectively.



(1) Production of non-aerosol liquid laundry detergents

Our non-aerosol liquid laundry detergents are manufactured under our brand of “JIERJIA”(“吉爾佳”) which were launched in the first quarter of 2013.

(2) Production of non-aerosol solid/liquid air-fresheners

Our non-aerosol solid/liquid air-fresheners are manufactured through the following two steps:

- (i) the content of a non-aerosol solid/liquid air-freshener is prepared by putting raw materials, such as water, carrageenin (卡拉膠), fragrances, etc., in prescribed sequences into an emulsion tank, with temperature adjustments during the process; and then
- (ii) the content is packaged into containers, which are then sealed.

(3) *Production of mosquito-repellent incenses*

Our mosquito-repellent incenses are manufactured under our brand of “EAGLEIN KING” (“鷹王”). During the Track Record Period, the production of our mosquito-repellent incenses was in turn sub-contracted to two PRC manufacturers, who were Independent Third Parties (the “**Sub-Contractors**”), respectively from 2010 to June 2012, and from September 2012 up to the Latest Practicable Date.

We entered into binding sub-contracting agreements with the Sub-Contractors so as to lay down the terms and conditions of the sub-contracting arrangements. The principal terms of the sub-contracting agreements are similar and summarized as below:

- *Sub-contract manufacturing:* the Sub-Contractors shall manufacture our mosquito-repellent incenses under our brand name of “EAGLEIN KING” (“鷹王”).
- *Raw material procurement:* generally the Sub-Contractors shall be responsible for procuring raw materials and bear the costs related thereto. However, sometimes we may agree to provide certain painting and packaging materials for the products.
- *Pricing:* product prices are specified in the sub-contracting agreements or the appendices thereto. The said prices may be adjusted by the parties afterwards upon mutual agreement. In order to stabilize our cooperation with the Sub-Contractors during the inception stage of the sub-contracting agreement with them, the sub-contracting agreements may provide for a price-locking period being effective for a few months, within which the product prices specified in the agreement shall remain unchanged.
- *Payment terms:* each time after making a purchase order, we shall pay a down payment, usually 30% of the purchase price specified in the purchase order to the Sub-Contractors. The rest of the price shall be settled after delivery of the products to us.
- *Specifications and quality requirements:* products manufactured by the Sub-Contractors shall be in strict compliance with relevant laws, regulations, governmental requirements and our specifications and quality standards as specified in the agreements.
- *Trademarks:* Sub-Contractors are forbidden from using our brand “EAGLEIN KING” (“鷹王”) for any activity other than the manufacture of products ordered by us.

For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, the costs incurred in relation to the sub-contracting arrangements amounted to approximately RMB0.52 million, RMB0.15 million, RMB1.99 million and RMB2.67 million respectively. The significant cost in relation to sub-contracting for the three months ended 31 March 2013 was primarily due to (i) the increase in mosquito-repellent incenses sales in 2013; and (ii) the seasonality factor of which production for mosquito-repellent mostly takes place in the first half of the year such that it can be available for sale before summer.

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Quality assurance

We understand that any material quality problems in relation to our products may lead to the loss of customers and market share of our products and damage our business reputation. Therefore, we have been putting great emphasis on quality control and adopting stringent quality standards for our products.

As at the Latest Practicable Date, our quality control team consists of:

- (i) one quality control manager who is responsible for overseeing the entire quality control team and the quality of our products, and assisting the management team in implementing our quality control policies; and
- (ii) 11 staff members trained up by our Group who are responsible for checking the qualities of products and raw materials.

Our current quality control manager is a Certified Internal Auditor of ISO9001:2008, ISO14001:2004 and OHSAS18001:2007 accredited by a state-approved accreditation organisation in the PRC. The senior staff members of our quality control team possess three to six years of relevant experience in quality control of aerosol products or other products.

To ensure reliable product quality, our quality control team closely monitors material stages of our operation, starting from the selection of suppliers, and the inspection of major raw materials all the way to sample checking for every single batch of finished products. The table below sets forth the quality control measures taken by us at different stages of our operation:

<u>Stages of operation</u>	<u>Quality control measures</u>
Selection of suppliers	We select our suppliers according to our internal quality evaluation system and we maintain a list of qualified suppliers from time to time. We only purchase raw materials from approved suppliers, except for our CMS business, in which our customers might have designated a specific supplier of their own choice.
Procurement of raw materials	Prior to the delivery of raw materials, our quality control staff will visit the supplier to conduct inspection on the raw materials and obtain samples for further quality tests. When raw materials like fragrances are delivered to our production facilities, laboratory tests will be carried out to obtain sensory and analytical data, which will then be used for comparison with our prescribed standards and specifications. We only accept raw materials that can meet our quality standards.

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Stages of operation

Quality control measures

Production

Our quality control team sample-tests our work-in-progress and finished products in the major steps of our production process including:

- (1) sample-test on the quality of the concentrate before concentrate filling;
- (2) sample-test after concentrate filling, and after filling in the propellant as well, to ensure the filled aerosol cans comply with weight requirements;
- (3) sample-test after filling in the propellant to make sure that the aerosol cans for detection of any leaks on the aerosol cans.

Outgoing quality control

We carry out inspection and testing on our finished products to ensure that quality standards and requirements are met. Products that do not meet our requirements will be disposed of or re-processed. We also ensure finished products are properly stored in our warehouses prior to delivery to customers.

Maintenance of production equipment and machineries

Our technicians conduct regular maintenance and repairs on our production equipment and machineries to ensure that our production equipment is free from problems. We conduct maintenance on our major production machineries and equipment on a monthly basis, which will take a maximum of half an hour. Our Directors confirmed that in calculating our production capacity, we had taken into account the time involved in the said regular maintenance schedules and thus, our designed production capacity was calculated as from 80% to 85% of the actual maximum production capacity of our production equipment. In addition, maintenance is generally scheduled outside production time to ensure none or minimum disruption of production.

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Stages of operation

Staff trainings

Quality control measures

We also conduct regular staff trainings on the quality assurance procedures and the importance and need to adhere strictly to such procedures.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had not experienced any cancellation of customer orders and we had not been subject to any material product liability claim. Our Directors further confirmed that during the Track Record Period, we did not have material sales return and product recall.

We have obtained ISO9001:2008 certification for our quality management system from Shanghai Ingeer Certification Assessment Services Co., Ltd. (上海英格爾認證有限公司) since 2009 and our current certificate will remain valid till October of 2015.

Apart from the ISO certification, we have also been evaluated by the China Product Quality Association* (中國產品質量協會) as complying with the AAA Class Standard of International Quality Credit Rating Classification* (國際質量信用AAA等級).

Further, we have been awarded with various awards recognizing our outstanding product quality. Please refer to the paragraph headed “Business — Awards” of this prospectus for further details.

INVENTORY CONTROL

Our inventories are mainly comprised of raw materials, work-in-progress and finished products. We manage our inventory on a “first-in, first-out” basis whereby raw materials that are first received will be first used for production. Our inventory level is determined principally by our customers’ orders, sales forecasts and production requirements. We manage our inventory closely by maintaining close co-ordination among our sales and marketing, raw material procurement, production and warehousing departments.

We monitor our inventory aging through inventory cycle counts. We review our inventory level in tandem with our sales forecasts. We also perform full inventory counts for all inventories at the end of December for each financial year. However, we may also increase our stocks of raw materials at times when our management, based upon market information collected by us in particular, in anticipation of any rise in the prices of the relevant raw materials.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we were able to maintain a reasonable level of inventory because of the effective implementation of our inventory control system, details of which are set out as follows:

(i) Raw materials:

We assess our consumption of raw materials on a monthly basis based on our sales orders in the preceding month and the projected production in the coming month, the prevailing inventory level of our raw materials as well as our production capacity to process these orders. Our general

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policy is to maintain the stock of raw materials and/or components at a level sufficient for our use for around one month, which we regard as a safe stock level to avoid shortage of supplies. By so doing, we can average out the effect of price fluctuations in the cost of raw materials. In order to reduce the raw material obsolescence risk, we had implemented the Enterprise Resource Planning (“ERP”) system gradually since January 2011 so as to assess (i) whether an optimal level of raw material had been kept on hand through tracking the utilisation of each item of raw materials; (ii) whether we have kept sufficient raw material for production; and (iii) the aging of the raw materials (e.g. aerosol cans, over caps, valves and paper-boxes); and in this respect, we will normally first utilise those raw materials which has been first purchased. Our Directors confirmed that no obsolescence risk had been identified during the Track Record Period and up to the Latest Practicable Date. Our staff in the procurement and inventory department will analyse the report obtained from the ERP system and take into account the factors set out above, to prepare the purchase forecast of raw materials on a monthly basis and make recommendation to Mr. He Haibo (何海波), who would review the same and pass the forecast to Ms. Pan Yili (潘伊莉) for approval.

(ii) Finished goods:

CMS products are produced based on individual orders therefore there is no risk of obsolescence. OBM products are stored in our warehouse until orders are received from Distributors. The head of our production department and our sales manager responsible for OBM sales will monitor the level of finished OBM products on hand at the beginning of each month. If our management team notices any slow moving OBM products, the production of these products will be rescheduled until the following month and more sales effort will be put in place for these OBM products.

As at 31 December 2010, 2011, 2012 and 31 March 2013, our inventory amounted to approximately RMB19.02 million, RMB21.86 million, RMB24.59 million and RMB30.13 million respectively. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our average inventory turnover days were approximately 58 days, 46 days, 49 days and 59 days respectively.

RAW MATERIALS, PROCUREMENT AND SUPPLIERS

Raw materials and procurement

The major raw materials for the content of our aerosol products are butane gas, flavors and fragrances, polypropylene, polyethylene and alcohol, while the major raw materials for the packaging of our aerosol products are aerosol cans, over caps, valves, and paper-boxes. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our costs for raw materials were approximately RMB109.65 million, RMB153.21 million, RMB163.03 million and RMB38.71 million respectively, representing approximately 94.13%, 93.83%, 93.92% and 93.02% of our respective total costs of sales.

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During the Track Record Period and up to the Latest Practicable Date, purchases for aerosol cans formed a major part of our costs of sales. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, costs for aerosol cans were approximately RMB70.65 million, RMB93.02 million, RMB92.77 million and RMB18.64 million respectively, representing approximately 60.66%, 56.97%, 53.45% and 44.79% of our respective total costs of sales.

In respect of different kinds major raw materials, we maintain at least two to three qualified suppliers at the same time to avoid shortage in supply of the raw materials. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not experience any shortage or material delay in the supply of raw materials.

The Directors confirmed that the procurement of aerosol cans and valves generally takes around 20 days, and for other major raw materials, the procurement of which normally takes no more than 10 days.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute with our suppliers.

As costs for aerosol cans and valves constituted the main part of our costs of sales during the Track Record Period, to avoid or minimize the adverse effects of price fluctuation of these two types of raw materials, in particular when we expect the price of aerosol cans or valves to go up, we had entered into price-locking arrangements with our major suppliers, including Zhejiang Lujia under the Aerosol Can Purchase Agreement whereby Zhejiang Lujia will supply aerosol cans to our Group at a fixed price for a period of time.

We are of the view that the price-locking arrangement does not constitute any kind of hedging activities of our part as we are not obliged to purchase any aerosol can from Zhejiang Lujia under the price-locking arrangement. If the market price of aerosol cans falls below the locked-up price, we can purchase aerosol cans from other suppliers with reference to the prevailing market price.

Though the price-locking arrangement would not constitute any kind of hedging activities on our part, to mitigate the risk of cost overruns arising from the price-locking arrangement, we have implemented certain risk management measures including (i) considering the annual production plan for the year ahead which will be reviewed from time to time by us based on the purchase orders received during the year; (ii) checking the latest costs of aerosol cans approximately once a month; (iii) analyzing price trends of aerosol cans on a monthly basis; (iv) monitoring closely market prices of aerosol cans and paying close attention to market forecast and market condition. Mr. He Haibo (何海波), a member of our senior management, is responsible for, among other things, reviewing the price-locking arrangement; and (v) approving the price-locking agreement by Ms. Pan Yili (潘伊莉), an executive Director. Mr. He Haibo (何海波) has been participating in the negotiations of the price-locking arrangements with our suppliers since he joined our Group in 2012. He is also responsible for monitoring the price-locking arrangement we entered into with our major suppliers and his judgments in relation to the price-locking arrangements are generally endorsed by our Group. Mr. He Haibo (何海波) has accumulated over a year of experience in relation to the price-locking arrangements and his performance in this regard is acknowledged by our Directors. Based on the above, our Directors consider that Mr. He Haibo (何海波) is capable to continue to review and monitor the price-locking arrangements of our Group.

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Each time before we place purchase orders to any supplier, our supply department would approach several approved suppliers selected from the list of our approved suppliers and seek for quotations and product samples from them. Through studying the quotations, testing the quality of the samples sent to us and further negotiation with such approved suppliers, we will select the suitable supplier(s) for the purchase and send our purchase order to them.

For our CMS business, one customer during the Track Record Period had verbally designated a specific supplier (the “**designated supplier**”) to provide aerosol cans for our production of CMS products. Under such special circumstances, we still require the designated supplier to comply with our quality requirements. Our Directors confirmed that this designated supplier is an Independent Third Party and the price determination and the pricing of raw materials supplied by this designated supplier was comparable with other ordinary suppliers of our Group. For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our purchase from the designated supplier of aerosol cans amounted to approximately RMB7.81 million, RMB6.32 million, RMB7.98 million and RMB0.89 million, representing approximately 14.13%, 8.28%, 9.13% and 6.49% of our total purchase amount of aerosol cans in the respective years. Our Directors confirmed that we had not experienced difficulties in procurement of raw materials from the designated supplier during the Track Record Period. Under Agreement C, AraGon and our Group have based upon mutual agreement appointed another Independent Third Party as supplier of nozzles for our products to be manufactured under Agreement C. For further details regarding our arrangements with AraGon, please refer to the paragraphs headed “Business — Customers — Our CMS customers” of this prospectus.

Suppliers

The selection of our suppliers is based on the following criteria:

- the supplier’s reputation;
- the supplier’s ability to supply quality raw materials that meet our stringent standards;
- the supplier’s ability to supply raw materials at competitive prices; and
- the supplier’s ability to make timely deliveries and provide quality service.

Apart from the above criteria, we adopt the internal quality evaluation system for supplier selection. According to the system, each potential supplier has to pass the following reviews and assessments to become our qualified supplier:

- (i) our initial assessment based upon basic information of the supplier;
- (ii) test of the supplier’s sample products by our technical staff; and
- (iii) our site-visit to the supplier’s factory or production plant.

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Further, we conduct ongoing reviews on our list of approved suppliers, and these suppliers who cannot satisfy our quality or other requirements will be removed from the list. The following tables set forth certain information about our top five suppliers during the Track Record Period.

Top five Suppliers for the year ended 31 December 2010	Products mainly sold	Purchase amount (RMB'000)	Percentage (%) to our total purchase	Year of relationship (as at 31 December 2010) (Note)	Credit Period (days)
Zhejiang Lujia	aerosol cans	31,468	27.02%	1 year	30
Supplier A	aerosol cans	11,091	9.52%	7 years	30
Supplier B	valves	9,349	8.03%	5 years	90
Supplier C	aerosol cans	7,805	6.70%	7 years	0
Supplier D	butane gas	5,368	4.61%	7 years	7

Top five Suppliers for the year ended 31 December 2011	Products mainly sold	Purchase amount (RMB'000)	Percentage (%) to our total purchase	Year of relationship (as at 31 December 2011) (Note)	Credit Period (days)
Zhejiang Lujia	aerosol cans	61,824	37.86%	2 years	30
Supplier B	valves	14,879	9.11%	6 years	90
Supplier D	butane gas	9,044	5.54%	8 years	7
Supplier C	aerosol cans	6,320	3.87%	8 years	0
Supplier E	aerosol cans	5,560	3.40%	3 years	30

Top five Suppliers for the year ended 31 December 2012	Products mainly sold	Purchase amount (RMB'000)	Percentage (%) to our total purchase	Year of relationship (as at 31 December 2012) (Note)	Credit Period (days)
Zhejiang Lujia	aerosol cans	72,941	42.02%	3 years	30
Supplier B	valves	15,446	8.90%	7 years	90
Supplier D	butane gas	9,649	5.56%	9 years	7
Supplier C	aerosol cans	7,984	4.60%	9 years	0
Supplier F	butane gas	7,518	4.33%	4 years	7

Top five Suppliers for the three months ended 31 March 2013	Products mainly sold	Purchase amount (RMB'000)	Percentage (%) to our total purchase	Year of relationship (as at 31 March 2013) (Note)	Credit Period (days)
Zhejiang Lujia	aerosol cans	13,923	33.46%	4 years	30
Supplier B	valves	2,751	6.61%	8 years	90
Supplier D	butane gas	2,674	6.43%	10 years	7
Supplier G	incenses	2,487	5.98%	2 years	0
Supplier F	butane gas	2,463	5.92%	5 years	7

Note: It was based on the year in which the first purchase order/invoice was issued.

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For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively, costs of purchases from our top five suppliers were approximately RMB65.08 million, RMB97.63 million, RMB113.54 million and RMB24.30 million respectively, representing approximately 55.87%, 59.79%, 65.41% and 58.39% of our total costs of sales.

For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively, costs of purchases from our largest supplier amounted to approximately RMB31.47 million, RMB61.82 million, RMB72.94 million and RMB13.92 million respectively, representing approximately 27.02%, 37.86%, 42.02% and 33.46% of our total costs of sales.

We generally have around or more than 4 years of cooperation with most of our major suppliers and have established stable business relationship with them. Our relationship with these suppliers over the years have enabled us to procure raw materials in a timely manner without significant difficulties during the Track Record Period and up to the Latest Practicable Date. Our Directors do not anticipate any material difficulties in the procurement of the raw materials in the foreseeable future.

Zhejiang Lujia, a supplier of aerosol cans and our largest supplier for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, was owned as to 55% by an Independent Third Party and 45% by Mr. Yu Afu, the father of Mr. Yu since its establishment in 2005 until 27 August 2012. Therefore, Zhejiang Lujia was our Connected Person, and the transactions with Zhejiang Lujia constituted discontinued connected transactions under the Listing Rules after Mr. Yu Afu had disposed of his interest in Zhejiang Lujia in August 2012. To alleviate our reliance on Zhejiang Lujia for the supply of aerosol cans, our Directors believe Supplier C and Supplier E have adequate production capacity to meet our business expansion plan. As such, we have approached Supplier C and Supplier E to explore for better terms and price for the supply of aerosol cans to us on an ongoing basis in order to seek quotations from time to time. Our Directors take the view that if the price offered by Supplier C or Supplier E for the same kind of aerosol cans is more favourable than that offered by Zhejiang Lujia, we shall purchase the aerosol cans from Supplier C or Supplier E. As we are not obligated to purchase aerosol cans from Zhejiang Lujia and any other suppliers with whom we entered into price-locking arrangement, we are confident that we can re-negotiate the locked-up prices with them if the market price decreases to less than the locked-up price despite the price-locking arrangement. Our Directors confirmed that our transactions with Zhejiang Lujia were conducted in the ordinary course of our business and on normal commercial terms. For further information in this respect, please refer to the sections of “Financial Information” and “Connected Transactions” of this prospectus.

Purchase Agreements with China Flavors Group

We entered into a two-year and a one-year exclusive master purchase agreement with a subsidiary of China Flavors Group for the sale and purchase of flavors and fragrances respectively in 2010 and 2012. The 2012 master purchase agreement had expired in January 2013. The said master purchase agreements set out mainly the quality standard, packaging standard and transportation of the flavors and fragrances to be provided by China Flavors Group, exclusivity on the purchase of flavors and fragrances from China Flavors Group (which had been effectively waived by an agreement dated 15 October 2012 entered into between Neland, a subsidiary of China Flavors, our Group and Mr. Yu), 5% sales rebate to us at the end of each year, payment of purchase price on a quarterly basis, dispute resolutions,

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respective credit limit of RMB5 million and RMB2 million and automatic termination of the agreement upon expiry. These master agreements did not contain any provision with respect to the minimum purchase commitment on our part as purchaser nor the pricing of the flavors and fragrances.

Save as disclosed above, our Directors confirm that none of our Directors, their Associates or shareholders who, to the best knowledge and information of our Directors, owned more than 5% of our issued share capital had any interest in any of our Group's top five suppliers during the Track Record Period.

Logistics and transportation

Generally, our suppliers will be responsible for the transportation of their goods to our warehouses either by their own transportation team or by transportation companies engaged by them at their own costs. The suppliers or the transportation companies will bear the risk of any damage to the goods during transportation.

Settlement of purchase price

We settle our payment to all our suppliers in RMB. Our Group has different credit arrangements with different suppliers. Some suppliers require us to make payment before delivery of their products to us, while other suppliers give us credit periods ranging from 7 to 90 days.

COMPETITION

Our Group faces keen competition from brand owners and other CMS manufacturers of aerosol products around the world.

According to the CRI Report, there are several major barriers facing potential new entrants into the aerosol industry, namely:

- (i) the capital intensive nature of the industry with the need for high-cost machinery and equipment;
- (ii) difficulty in mastering industry expertise and technologies which can only be acquired through years of research and development activities and production experience;
- (iii) substantial investment and time required for the building up of a distribution network and customer base; and
- (iv) difficulty in obtaining steady supply of raw materials at competitive price levels.

Our Directors believe that given our strengths as stated in the paragraph headed "Business — Competitive Strengths" of this prospectus, we are able to maintain our position in the keen competition in the aerosol industry.

ENVIRONMENTAL MATTERS

The conduct of our business is subject to various national laws regulations, rules and standards on environmental protection, including but not limited to Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), Ambient Air Quality Standard GB3095-1996 (環境空氣質量標準GB3095-1996), Emission Standard for Industrial Enterprises Noise at Boundary GB12348-2008 (工業企業廠界環境噪聲排放標準GB12348-2008), Integrated Wastewater Discharge Standard GB 8978-1996 (污水綜合排放標準GB8978-1996), Environmental Quality Standard for Noise GB3096-2008 (聲環境質量標準GB3096-2008), etc. For details in respect of environmental laws, regulations and national standards regulating our business, please refer to the section headed "PRC Laws and Regulations Relating to the Industry" of this prospectus.

We have formulated a comprehensive environmental management system which was implemented in our production during the Track Record Period and up to the Latest Practicable Date. We have been awarded ISO14001:2004 certification from Shanghai Ingeer Certification Assessment Services Co., Ltd. (上海英格爾認證有限公司) and our certificate will remain valid until November 2014.

During the Track Record Period and up to the Latest Practicable Date, and as advised by our PRC Legal Adviser, we had complied with the applicable laws and regulations in the PRC on environmental protection in all material respects, and that we were not subject to any material fines or legal actions involving non-compliance with any relevant environmental regulations in the PRC, nor were we aware of any threatened or pending actions against our Group by any environmental regulatory authority in the PRC.

For the three years ended 31 December 2010, 2011 and 2012, we incurred approximately RMB138,000, RMB159,000 and RMB160,000 respectively for the implementation of environmental management measures. Our Directors expect that our cost for environmental compliance will be approximately RMB160,000 from 1 January 2013 to 31 December 2013, which will not have an adverse material impact on our business operations or financial position.

OCCUPATIONAL SAFETY

We are subject to PRC laws and regulations regarding labor, safety and work-related incidents such as the Law on Production Safety of the PRC (中華人民共和國安全生產法). For details of relevant laws and regulations in this respect, please refer to the section headed "PRC Laws and Regulations Relating to the Industry" of this prospectus.

We provide protective outfit and safety-related education to our employees from time to time to increase their awareness of occupational health and safety. As advised by our PRC Legal Adviser, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had been in compliance with the applicable labour and safety regulations in the jurisdictions in which we operate in all material respects and did not have any incident or complaint which had an adverse material effect on our operations. During the Track Record Period, no accident involving death or serious injury of our employees had happened.

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EMPLOYEES

As at the Latest Practicable Date, the Group employed a total of 292 employees, a breakdown of which by function is as follows:

<u>Department</u>	<u>Number of employees</u>
Management	9
General and administration	14
Production	153
Technical support	25
Sales and marketing	47
Finance	7
Quality control	11
Research and development	4
Other	<u>28</u>
Total	<u><u>292*</u></u>

* The number of employees in all departments added together exceed the total number of employees for the reason that some of our management staff also act as heads in other departments and are therefore counted both in the management and other relevant departments.

Remuneration

The employees of the Group are generally remunerated by way of fixed salary. We have devised an appraisal system for our employees and we consider the appraisal result in conducting our salary reviews and making promotion decisions.

All our staff members undergo a performance appraisal once a year. The appraisal provides us with an opportunity to assess each individual staff's strengths and areas for improvement, thereby enabling us to effectively train and develop each individual staff.

Relationship with employees

Our Directors believe that we maintain good working relationship with our employees. Our Directors confirm that we have not encountered any difficulty in recruitment and retention of staff for our operation or experienced any material disruption in our operation as a result of labour disputes since the establishment of its business.

Employee Training

We place strong emphasis on the development and training of our employees. Induction courses, training programs and safety courses are conducted regularly. Apart from the above, we also incentivise our employees to gain knowledge in the relevant field of studies. We believe this will also increase the overall competitiveness of our workforce.

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We strive to ensure that our employees are equipped with the required skills and safety knowledge when performing their duties, and we aim to impart up-to-date knowledge and industry updates to them.

Staff benefits

The employee benefits for full-time staff in the PRC usually include a monthly basic salary, a performance-based commission, a year-end bonus and paid leave. In compliance with applicable statutory requirements in the PRC and existing requirements of the local government in the PRC, our Group participates in social security programs for our employees and our Directors confirm that we had settled all social insurance payments during the Track Record Period. Such social insurance included pension plans, basic medical insurance (including maternity insurance), unemployment insurance and work-related injury insurance. During the Track Record Period, we had not paid certain past housing provident fund contributions for and on behalf of our employees. As confirmed by our Directors, this is due to inconsistent implementation or interpretation by local authorities in the PRC and different levels of acceptance of the social security system by employees.

Share Option Scheme

We had conditionally adopted the Share Option Scheme on 16 September 2013 under which certain selected classes of participants (including, among others, full-time employees) would be granted options to subscribe for the Shares. The principal terms of the Share Option Scheme are summarised in Appendix V headed “Statutory and General Information — Share Option Scheme”.

INSURANCE

Commercial insurance

We currently maintain insurance coverage on our Feng Keng Production Plant and the facilities therein and our inventories. We do not have insurance coverage for product liability. However, as confirmed by the PRC Legal Adviser, this practice is in line with the general industry practice in the PRC as product liability insurance is not required under the PRC law. For details in this respect, please refer to the section headed “Risk Factors — Limited insurance coverage” in this prospectus. As such, our Directors consider that it is not necessary for us to purchase such insurance and that our insurance coverage in general is adequate for our operations.

Social insurance

We are required under relevant PRC laws and regulations to pay social insurance and the housing provident fund for our employees. For details in this respect, please refer to the paragraph headed “Business — Employees — Staff Benefits” of this prospectus.

PROPERTIES**Owned properties**

As at the Latest Practicable Date, our Group held properties in Sanmen County, Taizhou City, Zhejiang Province in the PRC, which consist of: (i) a parcel of industrial land of approximately 28,494.21 sq.m.; and (ii) 11 buildings and various ancillary structures on the above-mentioned parcel of land for production, office and other uses. We have obtained all relevant long-term land use right certificates and building ownership certificates for our owned properties.

Our ownership in the above real properties is subject to a mortgage to a bank in the PRC.

Further, as at the Latest Practicable Date, we held two units in a residential building in Sanmen County, Taizhou City, Zhejiang Province in the PRC. The two units are held for residential purposes for our senior management.

For further details of our owned properties, please refer to Appendix III of this prospectus.

Leased properties

As at the Latest Practicable Date, we held on lease four residential units located in Sanmen County, Taizhou City, Zhejiang Province in the PRC.

The above properties are leased by us from Independent Third Parties for residential purposes for some of our employees.

All of the tenancy agreements with respect to the four leased properties had not been registered with the relevant PRC government authorities. As advised by our PRC Legal Adviser, according to relevant PRC laws and regulations, relevant local authorities may order the parties concerned to rectify within a specific time limit, failure of which might result in a maximum fine of RMB10,000 per lease imposed on the Company. Our PRC Legal Adviser advised that the failure of registration does not affect the validity of the tenancy agreements.

In addition, as the landlord failed to provide proper title certificate or construction planning permit regarding one of the four leased properties (approximately 62.11 sq.m.), our PRC Legal Adviser advised that we are subject to the risk of not being able to continue using the property. Our Directors confirm that we are planning to register the tenancy agreements of the leased property and we also plan to relocate the leased property where the landlord failed to provide proper title certificate. Our Directors confirm that the property is leased to provide temporary housing for a few employees and our Directors believe that it will not have any adverse material effect on our operation in case that we are not able to continue to use the property. For further details of our leased properties, please refer to Appendix III of this prospectus.

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On 10 September 2013, we as tenant entered into a tenancy agreement with an Independent Third Party as landlord pursuant to which we agreed to lease an office premises situated at Flat B, 17th Floor, Harvest Building, 29-37 Wing Kut Street, Central, Hong Kong with a gross floor area of, as represented by the landlord, approximately 40 sq.m. as our principle place of business in Hong Kong for a term of six months from 16 September 2013 to 15 March 2014.

INTELLECTUAL PROPERTIES

We sell and market our OBM products under a number of trademarks, including “Green Island”, “Ludao” (“綠島”), “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”), etc. All our trademarks are registered in the PRC, and some of our trademarks are also registered in foreign countries. Further, we possess a number of technological know-hows, patents and copyrights, and our registration applications in respect of some other patents are in process. For further information respecting our intellectual properties, please refer to the paragraphs headed “Intellectual Property Rights of the Group” in Appendix V to this prospectus.

For the formulas and technologies mastered by us, we have not applied for registration of them as patents. This is because the formulas or technologies will inevitably have to be disclosed during the process of registration and our competitors may thus have access to the formulas and technologies. For these product formulas and technologies, we find it more practicable to rely upon confidentiality procedures and contractual restrictions as set out in employment contracts with our staff members to protect proprietary rights. As each product would go through several research and development processes, which require application of different raw materials with formula quantities and the co-operation of different research and development staff, each staff member of research and development will only know the part of manufacture process in which he is involved. A provision on confidentiality is incorporated in the employment contracts of our research and development staff. Such clause clearly stated that the staff are prohibited from disclosing any trade secret and other confidential information of the Group or producing products of the Group within three years after leaving our Group.

Our Directors confirm that product formulas and specifications specifically provided by relevant CMS customers shall belong to the customers, while OBM product formulas developed by us in-house shall be our own intellectual properties. No intangible assets would be recognized by us for the formulas developed in-house as the Distributors would provide the market trend and have continuous interaction with us in order to ensure the commercialisation of our OBM products. The intellectual properties belonging to the CMS customers or us are protected with exactly the same confidential procedures and contractual restrictions as elaborated above. Our Directors further confirm that confidential information belonging to the customers are stored properly in accordance with our internal system and will be destroyed instantly after obtaining approval from the relevant customers.

For our sub-contracting arrangements, our Directors confirm that in order to keep our formulas confidential from relevant Sub-Contractors, key materials are processed into semi-finished mixtures and then delivered to the relevant Sub-Contractors for further use in their production. As such, the Sub-Contractors will not know the composition of our formulas for production.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any infringement of our intellectual property rights, or faced or been threatened with any proceedings concerning claims by third parties alleging breach of their intellectual property rights by us.

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AWARDS

Our Group has been honoured with awards from various associations and governmental authorities. The table below sets out the major awards received by us:

Year of Grant	Awards	Awarding Body
2005	Grade A industrial and commercial unit in Zhejiang Province for contract compliance and credit-worthiness* (浙江省工商企業信用 (A級) 守合同重信用單位)	Sanmen County People's Government* (三門縣人民政府)
2006	The 10th Trustworthy Unit for Consumers Award (2004–2005)* (第十屆消費者信得過單位 (2004–2005))	Sanmen County Consumers' Association* (三門縣消費者協會)
2007	Grade AA industrial and commercial unit in Zhejiang Province for contract compliance and credit-worthiness* (浙江省工商企業信用 (AA級) 守合同重信用單位)	Taizhou City Administration of Industry and Commerce* (台州市工商行政管理局)
2008	The 12th Sanmen County Trustworthy Unit for Consumers Award* (三門縣第十二屆消費者信得過單位)	Sanmen County Consumers' Right Protection Association* (三門縣消費者權益保護委員會)
2010	Excellent enterprise unit in the competition for the "Taizhou City — Hundred Days' Safety" award amongst the thousand enterprises* (台州市千家企業「百日安全」競賽優秀組織單位)	Taizhou City Labour Union* (台州市總工會)
2011	Pioneer Group in Taizhou City "11th 5-year plan" Socialism Labour Competition* (台州市「十一五」社會主義勞動競賽先進集體)	Taizhou City Labour Union* (台州市總工會)

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<u>Year of Grant</u>	<u>Awards</u>	<u>Awarding Body</u>
2011	High and New Technology Research and Development Centre at City Level* (市級高新技術研究開發中心)	Taizhou City Science and Technology Bureau* (台州市科學技術局)
2011	Taizhou City Famous Trademark* (台州市著名商標)	Taizhou City Administration of Industry and Commerce* (台州市工商行政管理局)
2012	Taizhou City Scientific and Technological Improvement Award* (台州市科學技術進步獎)	Taizhou City People's Government* (台州市人民政府)

LEGAL COMPLIANCE

As advised by our PRC Legal Adviser and confirmed by our Directors, save as disclosed in the section headed “Business — Non-Compliance” of this prospectus herein, we had: (i) obtained all licences, permits or certificates necessary to conduct our business; (ii) complied in our operations with all relevant PRC laws, rules and regulations; and (iii) obtained confirmations from relevant environmental bureau in respect of the compliance in all material aspects with the environmental laws in the PRC during the Track Record Period and up to the Latest Practicable Date.

All products for sales overseas are sold on a CMS basis in that we are to manufacture products using product formulas supplied by the customers, or develop product formulas strictly in accordance with the customer's requirements and/or specifications, as the case may be. We entered into sales contracts with our CMS customers with the terms agreed by our CMS customers and us during the Track Record Period, pursuant to which no provision would oblige our Group to comply with overseas laws and regulations. In one isolated case, US Company A and US Company B used their own format of sales contract and required our Group to ensure compliance with overseas legal and regulatory standards and requirements in respect of our products. Under such circumstances, we will conduct research on relevant laws and standards to ensure that the products comply with them. Our Directors confirmed that during the Track Record Period, no complaint or warning was received in respect of our products violating any overseas laws or regulations. Also, US Company B confirmed in April 2013 to waive the obligation of our Group to ensure compliance with all applicable legal and regulatory standards and requirements.

Further, generally our Group's overseas sales have been made, and are currently made, either on free on board basis (“**FOB**”) or cost, insurance and freight basis (“**CIF**”). FOB means delivery of goods on board the vessel at the named port of origin (loading), at the seller's expense and the buyer is responsible for main freight, cargo insurance and other costs and risks. CIF means delivery of goods to the port of destination by the seller and the seller is responsible for the costs of freight and insurance,

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but the risk is transferred to the buyer once the goods are on board. Our property and risk of the products sold to overseas customers are passed to the overseas customers when the products are delivered to the forwarder located in the PRC.

As advised by our US legal advisers, we are not exposed to liabilities in respect of the products manufactured by our Group under the US laws because we lack sufficient minimum contacts with the United States or any state thereof sufficient to subject our Group to jurisdiction in the United States. We have no establishment nor contacts in the US, no business registration in any US State, no employees in the US and no owned or leased real property in the US. We do not exercise control over the destinations of our products, and we have not directed any selling efforts into the United States. Although US courts allow private litigants to bring lawsuits against entities involved in the chain of production and distribution of products, including foreign-based manufacturers, we have not marketed our products in the United States, and do not have a chain of production or distribution in the United States. We manufacture products according to our customers' requirements and specifications and deliver the products on FOB or CIF basis to our customers, instead of to end-users directly.

Sales to Sanctioned Countries

Pursuant to Agreement C, subject to fulfilment of the underlying circumstances which affect AraGon's customers to purchase our products through AraGon mentioned above, our products will be sold to certain countries in Africa and Middle East. Entities in one of these countries to which our products will be exported, namely the Democratic Republic of Congo ("DRC") may be subject to sanctions imposed by the United Nations and by the US. The sanctions imposed by the United Nations on the DRC is in terms of arms embargo on Congolese armed groups and militias. This embargo covers, *inter alia*, the direct or indirect supply, sale or transfer of arms and related material or training assistance to groups operating in the DRC. As advised by the legal advisers as to the sanction law of the United Nations, the said sanctions should not be applicable or related to our mosquito spray products to be sold to the DRC.

In respect of the US sanctions, the property and interests in property of certain persons involved in armed conflict in the DRC are blocked and the US persons are prohibited from engaging in any transactions with them. We have consulted legal advisers in the US as to sanction law, who opined that factors to determine whether our activities implicate US sanctions are: (1) whether there are any US persons involved, either directly or indirectly, in the Group's transactions; (2) whether any US persons, within or outside the Group, approved, financed, facilitated, or guaranteed the Group's transactions; (3) whether the Group's products are originated in the US or contain US-origin components; (4) whether there are any prohibited end-uses (e.g. nuclear, chemical or biological); and (5) whether any parties involved in the Group's transactions (including customers and distributors) are on the Specially Designated Nationals or any other prohibited party lists, such as Entity List, the Unrectified List, and the Denied Persons List. Our Directors confirm negative to the above factors. As such, the US sanctions should not apply or be related to our products to be sold to the DRC.

To safeguard us from violating any sanction imposed by the United Nations and by the US, we shall engage an external counsel to regularly review the legal requirements of our sales to overseas countries and advise us on the compliance issues in respect of such sanctions. The Directors will check on a daily basis on the Internet whether any countries to which we export our products would become subject to any sanctions laws and regulations and whether any of our customers are blacklisted as such.

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Based on the US and United Nations legal opinions as to sanction laws, our Directors take the view that our sales of mosquito sprays to AraGon and further exported to DRC would not contravene any of the sanction laws proclaimed by the United Nations and the US.

NON-COMPLIANCE

During the Track Record Period, we failed to comply with certain laws and regulations in the PRC and Hong Kong. The non-compliance incidents are summarised in the following table.

Name(s) of entities	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Ludao (PRC)	<p>In 2009, we entered into credit agreements with the Endorsing Banks for issuance of bank acceptance notes as payment for our purchase of raw materials. We entered into sale and purchase contracts or made purchase orders with our suppliers and then presented the contracts or purchase orders to the Endorsing Banks for issuance of bank acceptance notes. However, these sale and purchase contracts or purchase orders were not backed up by real transactions. Such bill financing arrangement did not therefore comply with the terms of the credit agreements and Article 10 of the PRC Negotiable Instruments Law (“Non-Compliant Bill Financing”). As the discount rates of bank acceptance notes are normally lower than the prevailing interest rates for short-term bank loans, to take advantage of these lower interest rates, we used Non-Compliant Bill Financing arrangements to fund a portion of our business operations.</p> <p>For details of the Non-Compliant Bill Financing, please refer to the paragraph headed “Business — Non-Compliance — Non-Compliant Bill Financing” of the prospectus.</p>	<p>The non-compliance was principally due to the lack of relevant legal knowledge of our then leader of supply department, Mr. Han Jianhua (韓劍華), at the time when he authorised such Non-Compliant Bill Financing and inadequate advice to him by professionals on matters pertaining to bill financing.</p>	<p>Please refer to the section headed “Business — Internal Control and Corporate Governance Measures” of this prospectus.</p>	<p>Please refer to the section headed “Business — Non-Compliance — Non-Compliant Bill Financing — Opinion of our PRC Legal Adviser” of this prospectus.</p>
Ludao (PRC)	<p>We failed to make financial contribution for the housing provident fund for our employees in the PRC until 1 January 2012, as required under the relevant PRC labour and social welfare laws and regulations.</p> <p>For the three years ended 31 December 2010, 2011 and 2012, the amount of unpaid housing provident fund contribution for the employees was approximately RMB0.82 million, RMB1.13 million and RMB1.47 million.</p>	<p>We have not paid certain past housing provident fund contributions for and on behalf of its employees due to inconsistent implementation or interpretation by local authorities in the PRC and different levels of acceptance of the social security system by employees.</p>	<p>We have contributed to the housing provident fund for our employees since 1 January 2012.</p> <p>We have provided trainings on Corporate Governance to our Directors.</p> <p>We have made provisions for all outstanding housing provident fund, and our Directors undertake that we will continue to pay all housing provident fund pursuant to the relevant laws and regulations of the PRC.</p>	<p>The Housing Fund Authority has issued a confirmation on 4 May 2012, confirming that they will not impose penalties in respect of our default in payment of the housing provident fund or demand us to pay for the defaulted amount. As advised by our PRC Legal Adviser, the above party is the competent and appropriate authority to issue the confirmation, and therefore, although our default in payment of the housing provident fund constitute violations of the relevant laws and regulations, we will not receive punishment therefor or be required to make payment for the defaulted amount.</p>

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Name(s) of entities	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Ludao (HK)	<p>No annual general meeting has been convened since the incorporation of Ludao (HK) on 6 March 2008, contrary to the requirement under section 111 of the Companies Ordinance.</p> <p>No accounts for the three years ended 31 December 2010, 2011 and 2012 were prepared and laid before its shareholders at its annual general meeting, which is contrary to the requirement under section 122 of the Companies Ordinance.</p>	<p>Our Directors confirm that Ludao (HK) has not carried on any business since its incorporation on 6 March 2008. The non-compliance with sections 111 and 122 of the Companies Ordinance was due to the oversight of the relevant statutory requirements which resulted in the failure of Ludao (HK) to obtain timely professional advice on this matter.</p>	<p>We have provided trainings on corporate governance to our Directors.</p>	<p>Any company and every officer of the company who is in default under section 111 of the Companies Ordinance shall be liable to a fine of HK\$50,000; and for continued default, to a daily default fine.</p> <p>Any person being a director of a company that fails to comply with section 122 of the Companies Ordinance may be imprisoned and fined up to HK\$300,000.</p> <p>Pursuant to the aforesaid, Ludao (HK) and its director (namely, Mr. Yu) shall be subject to penalty in relation to the non-compliance of section 122 and section 111 of the Companies Ordinance. However, Ludao (HK) was disposed of by Ludao (BVI) on 21 November 2012 and Ludao (HK) since then ceased to be a member of the Group, therefore, the potential fine payable by Ludao (HK) does not have any impact on the Group.</p> <p>As to the penalty against director of Ludao (HK), Mr. Yu shall be personally liable for the same (if any). Mr. Yu has irrevocably undertaken to indemnify the Group for all loss and damages arising from the above mentioned non-compliance of the Companies Ordinance, including but not limited to the payment of all fines.</p> <p>To the best knowledge and belief of our Directors, Ludao (HK) is in the process of being dissolved as at the Latest Practicable Date. The dissolution of Ludao (HK) may not by itself bar the criminal enforcement by the Companies Registry on possible offences from past default but the likelihood of its occurrence is very low given that the subject company, namely Ludao (HK) will no longer exist.</p>

Non-Compliant Bill Financing

Background

In 2009, we entered into credit agreements with the Endorsing Banks for issuance of bank acceptance notes as a type of credit facility. Under the credit agreements, we were entitled to issue bank acceptance notes of certain amounts to our suppliers as payment for our purchase of raw materials.

We were required by the credit agreements to pay to the Endorsing Banks procedure fees and/or initial deposits for issuance of the bank acceptance notes. Our Directors confirm that all required procedure fees and initial deposits under the credit agreements were paid in time to the Endorsing Banks.

Where we paid suppliers by bank acceptance notes issued pursuant to the credit agreements, the relevant suppliers might at any time before the maturity dates present the notes to banks in the PRC for discounting and payment. These suppliers would obtain a sum equal to the face value of the bank acceptance notes minus discounted charges. Upon maturity, the bank acceptance notes may be presented to the Endorsing Banks for settlement.

We were under the obligation to settle the bank acceptance notes upon their maturity. Such obligations were secured by guarantees provided by Ludao (PRC), Mr. Yu and Mrs. Yu. Our Directors confirm that all amounts of the bank acceptance notes issued by us under the credit agreements were settled to the Endorsing Banks on or before their maturity dates.

In 2009, we concluded sale and purchase agreements with two of our suppliers (collectively the “**Non-Compliant Bill Financing Suppliers**”) for purchase of raw materials. Such sale and purchase agreements were presented to the Endorsing Banks for issuance of bank acceptance notes as payment for our purchasing of raw materials from the Non-Compliant Bill Financing Suppliers.

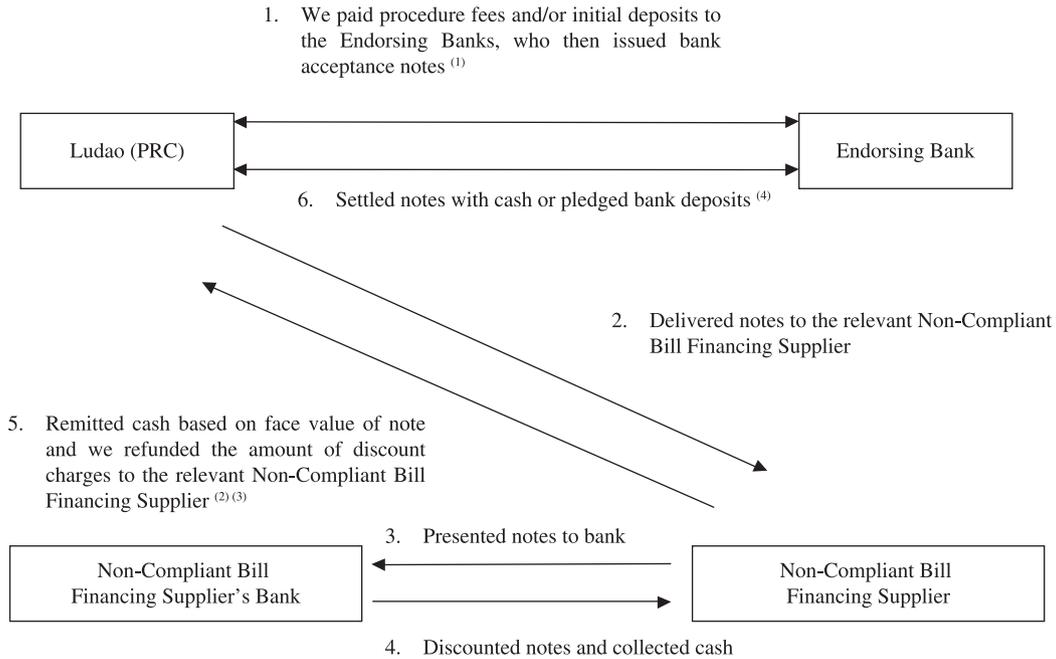
Based on the relevant company search results, interviews with the Non-Compliant Bill Financing Suppliers conducted by the Sponsor and the Sponsor’s legal adviser and the Directors’ confirmation, the Non-Compliant Bill Financing Suppliers are both Independent Third Parties.

Non-Compliant Bill Financing

The discount rates of bank acceptance notes were generally lower than the then prevailing interest rates for short-term bank loans in 2009. To reduce our overall financing costs by taking advantage of these lower interest rates, we obtained funds through issuing such bank acceptance notes (within the maximum amount limits stipulated in the credit agreements with the Endorsing Banks) to the Non-Compliant Bill Financing Suppliers. Although we presented to the Endorsing Banks our sale and purchase contracts or purchase orders with the Non-Compliant Billing Financing Suppliers when requesting the issue of the bank acceptance notes, such contracts or purchase orders were not backed up by actual transactions, which did not comply with the terms of the credit agreements and Article 10 of the PRC Negotiable Instruments Law and were made without the prior written approval from the relevant Endorsing Banks.

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The typical details of a Non-Compliant Bill Financing arrangement is illustrated by the diagram hereunder:



Notes:

1. Face value of the notes was accounted for as note payables to supplier.
2. The Non-Compliant Bill Financing Supplier remitted back cash worth the face value of the notes to Ludao (PRC).
3. The relevant discount charges were recognised as finance costs in our combined financial statements during the relevant period.
4. Notes are typically settled within 6 months.

To the best knowledge and belief of our Directors, the Non-Compliant Bill Financing Suppliers were willing to engage in the Non-Compliant Bill Financing arrangements because of their business relationships with our PRC subsidiary, Ludao (PRC), and were willing to advance funds to us to meet our working capital needs. Our Directors confirmed that we had not been involved in any similar bill financing activity for the benefit of the Non-Compliant Bill Financing Suppliers during the Track Record Period. Our Directors further confirmed that they or their Associates did not receive, and we did not pay to the Non-Compliant Bill Financing Suppliers or their respective directors or Associates, any amount as rebate or benefits in connection with the Non-Compliant Bill Financing activities during the Track Record Period. Our PRC Legal Adviser has confirmed that no legal action, be it civil or criminal, has been taken against us relating to our Non-Compliant Bill Financing activities.

We had settled and repaid all the outstanding amounts under the bank acceptance notes upon the maturity of the non-compliant bills by the end of 2009. However, the Endorsing Bank had to complete its internal procedures for processing the cancellation of the bank acceptance notes, which internal procedures were completed in May 2010. Our Directors have confirmed that no bribery or other illegal

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activities under the PRC Negotiable Instruments Law were involved in obtaining the Non-Compliant Bill Financing. In addition, the Endorsing Banks have confirmed that they did not incur any loss as a result of our business activities with them and will not take legal actions against us, our shareholders, our directors and senior management staff.

Our Directors, on the following bases, and among others, are of the view that no fraudulent activities as prescribed under the PRC Negotiation Instrument Laws were involved in the Non-Compliant Bill Financing arrangements:

- (i) the written confirmations from the Endorsing Banks stating that (a) they did not incur any loss as a result of our business activities with them, and (b) they will not take legal actions against us, our management and directors; and
- (ii) the view of our PRC Legal Adviser as stated in the PRC legal opinion that no fraudulent activities (such as falsified bills) as prescribed by the PRC Negotiable Instrument Law were involved in obtaining bill financing.

Save for Mr. Han Jianhua (韓劍華), the leader of our supply department in 2009, who was involved in the authorisation of the Non-Compliant Bill Financing, none of our Directors or senior management was involved in the Non-Compliant Bill Financing arrangement. Mr. Han Jianhua (韓劍華) confirmed that he had not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Financing and that he authorised such Non-Compliant Bill Financing because he did not have the relevant legal knowledge at the time when he authorised such Non-Compliant Bill Financing and was not adequately advised by professionals on matters pertaining to bill financing. Our Directors (including our non-executive Directors) have undertaken to procure us not to engage in or not to permit the engagement in Non-Compliant Bill Financing activities in future. We will also take a series of actions to address and rectify this issue. Please see the paragraph headed “Business — Internal Control and Corporate Governance Measures” in this prospectus.

Mr. Han Jianhua (韓劍華) was the only senior management involved in the authorisation of the Non-Compliant Billing Financing during 2009. Since 2010, Ms. Pan Yili (潘伊莉) was designated to be responsible to oversee the bill financing matter and will continue to do so in the future. A bill register (匯票登記表) would be maintained by the purchasing department and the procurement manager would ensure that all bills issued are properly supported by the flow of physical goods. The finance manager, Mr. Zheng Shijin (鄭士進), had worked for the Local Taxation Bureau of Sanmen County for more than thirty-five years. After that, he joined a machinery and electronic company with the position of finance officer for three years. Mr. Zheng Shijin (鄭士進) joined Ludao (PRC) in 2011 and has been working as the supervisor of finance department until now. His main duty is to review monthly financial reports and tax returns. A register which is prepared by Mr. Zheng Shijin (鄭士進) confirms the bank notes are supported by receipt of inventories at each month end. In case of the delivery of inventories is not in current month, Mr. Zheng Shijin (鄭士進) remarks such bank notes and continues to check the receipt of inventories in subsequent months. In the opinion of our Directors, Mr. Zheng Shijin (鄭士進) is appropriate to perform the above measure. He would check the details of the bill register against the accounting records to ensure that all bills included are matched with the bill register. Only the purchasing department would be involved to initiate the issuance of bills, the procurement manager would approve the issuance based on purchases contracts; the finance manager would also approve the issuance based on the purchases contracts. After the approval by the finance manager and procurement

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manager, the general manager would approve the issuance of the bill. As the issuance of bills will only be initiated by the purchasing department which would be properly supported by purchases contracts, thus, the chance of the purchases not being properly supported by flow of physical goods would be minimized.

The total amount of funds obtained from the Non-Compliant Bill Financing that were used for purposes other than for payment of the purchases from the Non-Compliant Bill Financing Suppliers amounted to approximately RMB47.65 million for the year ended 31 December 2009.

For illustrative purposes, based on the then prevailing interest rates for short-term bank loans for approximately 5.08% for the year ended 31 December 2009, we estimated that our interest expenses incurred and saved from the Non-Compliant Bill Financing arrangements are approximately RMB1.21 million and RMB0.78 million respectively.

By the end of 2009, all amount of our Non-Compliant Bill Financing had been fully settled.

Since the full settlement of all outstanding bank acceptance notes involved in the Non-Compliant Bill Financing arrangements by the end of 2009, we have demonstrated that we have sufficient funding to support our business operations based on our operating income, credit facilities and established relationships with PRC commercial banks and our ability to raise capital. Based on the foregoing, our Directors consider that we would have had sufficient funding for our business operations in 2009, assuming that there were no such Non-Compliant Bill Financing activities during the same period.

Confirmation from relevant PRC government authorities

In July 2012, we, together with our PRC Legal Adviser, initiated meetings and consulted with the Sanmen Branch of PBOC and the Taizhou Bureau of CBRC regarding our Non-Compliant Bill Financing. Our PRC Legal Adviser advised us that the PBOC and CBRC are the regulatory authorities for bill financing activities. The Taizhou Bureau of CBRC confirmed in its written letter dated 27 July 2012 that they would not impose any punitive measure against Ludao (PRC). The Sanmen Branch of PBOC confirmed in its written letter dated 28 July 2012 that they would not impose any administrative penalty or take any legal action against Ludao (PRC), its shareholder, directors and senior management. As advised by our PRC Legal Adviser, the above parties are the competent and appropriate authorities to issue the confirmations, and based on these confirmation letters, we will not be liable for any criminal or administrative liability. As at the Latest Practicable Date, we had not received any notice of formal investigation or inquiry regarding the Non-Compliant Bill Financing from government authorities.

Confirmations from the Endorsing Banks

We have met with each of the Endorsing Banks involved in the Non-Compliant Bill Financing, and all of them have confirmed in writing that: (i) all the bank acceptance notes in respect of the Non-Compliant Bill Financing have matured and settled; (ii) our payments to them related to the Non-Compliant Bill Financing were made in full and on time; (iii) the Non-Compliant Bill Financing will not have adverse effect on any future business between us and the relevant Endorsing Banks; (iv) they did

not incur any loss as a result of the Non-Compliant Bill Financing; (v) they will not take any legal action against us, the shareholders, directors and senior management of Ludao (PRC) in connection with the Non-Compliant Bill Financing.

Opinion from our PRC Legal Adviser

Our PRC Legal Adviser advised that although the amounts specified in the bank acceptance notes we issued in respect of the Non-Compliant Bill Financing were not backed up by actual transactions, which was not in compliance with Article 10 of the PRC Negotiable Instruments Law requiring that the issuance of a bank acceptance note shall be treated as a real act of trading or debt payment, bank acceptance notes issued by us in respect of the Non-Compliant Bill Financing were for the purpose of our working capital and not for the purpose of illegal possession and all the relevant fund has been fully repaid to the related banks, and as a result, there were no acts of criminal fraudulent activities prescribed by the Article 102 of the PRC Negotiable Instruments Law or Article 194 of the PRC Criminal Law. Our PRC Legal Adviser further confirms that there is no other provision in the current PRC laws, rules and regulations imposing criminal liability on us in respect of the Non-Compliant Bill Financing. According to Article 3 of the PRC Criminal Law, a criminal act not expressly defined by law shall not be convicted and sentenced. Therefore, our PRC Legal Adviser is of the view that we will not be subject to any criminal liability for our Non-Compliant Bill Financing.

According to our PRC Legal Adviser, there are no specific provisions in current PRC laws, rules and regulations prescribing administrative penalties for such issuance of bank acceptance notes. Article 3 of the PRC Administrative Penalty Law provides that any administrative punishment without legal basis or not following prescribed legal procedures shall be invalid. Further, according to Article 4 of the PRC Administrative Penalty Law, rules governing the offences which are subject to administrative penalty must be promulgated, and rules not promulgated shall not become the basis for administrative penalty. Therefore, as there is no legal basis for imposing administrative punishment upon us, our PRC Legal Adviser is of the view that we will not be subject to any administrative punishment as a result of our Non-Compliant Bill Financing.

Furthermore, the full amounts of the bank acceptance notes in respect of the Non-Compliant Bill Financing have been repaid to the Endorsing Banks in time. There are no dispute or civil claim between us and the Endorsing Banks or any other third parties.

On the basis of (i) the above analysis, (ii) the confirmations from the relevant Endorsing Banks, and (iii) confirmations from the Sanmen Branch of PBOC and Taizhou Bureau of CBRC, being the relevant government authorities our PRC Legal Adviser, is of the opinion that we will not be subject to any criminal, administrative or civil liability for our Non-Compliant Bill Financing.

Our PRC Legal Adviser confirms that as there is no legal basis for imposing criminal or administrative punishment and no risk of any civil claim against us for our Non-Compliant Bill Financing, there is no potential liability or penalty to be imposed upon us in respect of the Non-Compliant Bill Financing. Therefore, we do not make provision for the Non-Compliant Bill Financing.

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Views of our Directors and Sponsor

Our Directors are of the view that the Non-Compliant Bill Financing does not affect the suitability of Mr. Han Jianhua (韓劍華) to act as a Director under Rules 3.08, 3.09 and 8.15 of the Listing Rules on the following basis: (a) Mr. Han Jianhua (韓劍華) has not obtained any personal benefit directly or indirectly from the Non-Compliant Bill Financing; (b) the advice of our PRC Legal Adviser that activities involved in obtaining the Non-Compliant Bill Financing did not constitute fraud by means of financial bills under the PRC Negotiable Instruments Law or the PRC Criminal Law; (c) the Non-Compliant Bill Financing did not involve any fraudulent act by Mr. Han Jianhua (韓劍華), and did not impugn on his integrity or competence; (d) the confirmations from the three Endorsing Banks that they will not take any action against Ludao (PRC) based upon the Non-Compliant Bill Financing; (e) the confirmations from Sanmen Branch of PBOC and Taizhou Bureau of CBRC that they will not impose any administrative punishment on or take any punitive or other measure against Ludao (PRC); (f) as at the Latest Practicable Date, to the best of our knowledge having made reasonable enquiry, there were no legal proceedings against Mr. Han Jianhua (韓劍華) in the PRC and Hong Kong; (g) the substantial experience of Mr. Han Jianhua (韓劍華) in corporate management; (h) the fact that Mr. Han Jianhua (韓劍華) has attended a training session on corporate governance provided by our Hong Kong legal advisers; (i) the undertaking by Mr. Han Jianhua (韓劍華) that he will attend training courses regarding relevant laws and regulations to be conducted by professional training providers accredited by the relevant professional bodies in the areas of financial management, corporate governance and the Listing Rules during each of the two years after the Listing. The Sponsor, after considering the above factors and reviewing and being satisfied with the internal control procedures recommended by KL CPA Limited regarding the Non-Compliant Bill Financing, concurs with the view of our Directors that Mr. Han Jianhua (韓劍華) has the character, experience and integrity required of a director under Rules 3.08 and 3.09 of the Listing Rules, and the Non-Compliant Bill Financing does not affect the suitability of Mr. Han Jianhua (韓劍華) to act as a director of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the Company's suitability for listing under Rule 8.04 of the Listing Rule.

INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

We have adopted or planned to adopt a series of measures to enhance our corporate governance and prevent future non-compliance of applicable laws and regulations. In November 2011, we engaged KL CPA Limited, an independent internal control adviser, to execute an agreed set of review procedures (“**Review**”) on our internal control systems. KL CPA Limited completed the initial review in March 2012 and conducted three follow-up reviews in July, December 2012 and February 2013.

Prior to the Listing, we have engaged KL CPA Limited to act as our independent internal control reviewer at fixed fees with respect to the reviews of our internal controls and financial reporting systems. KL CPA Limited is a Hong Kong professional accounting firm being registered in the Hong Kong Institute of Certified Public Accountants and provides a wide range of integrated professional services including audit and assurance, accounting, taxation, corporate, and advisory services. KL CPA Limited has experience in providing consultancy services in internal controls and performing independent review on internal controls system for companies listed on the Stock Exchange and applicants for initial public offering and private companies in Hong Kong, which included companies principally engaged in manufacturing, trading as well as information technology-related business. Since the commencement of the Track Record Period and up to the Latest Practicable Date, an initial review and three follow-up reviews on our internal controls and financial reporting systems had been

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conducted. In preparing the aforesaid reviews and the report of factual findings, KL CPA Limited has applied procedures including, among others, (i) inquiry and analysis, (ii) comparison and other clerical accuracy checks, (iii) observation, and (iv) inspection and performed, among others, walk-through tests and tests of controls, the sampling size of which was determined with reference to the frequency of occurrence of the relevant transactions or events of ours. In the reviews, except for the non-compliance related to bill financing and strengthening of the internal control on distributorship, no internal control deficiency which is material to our operation has been identified. With reference to the aforesaid procedures and work done performed by KL CPA Limited, in the capacity of our independent internal control reviewer to perform independent reviews on our internal controls and financial reporting systems, we consider that KL CPA Limited has accumulated the sufficient experience. Following the reviews, we have enhanced our internal control measures based on the recommendations from the independent internal control reviewer.

The scope of Review primarily included the financial procedures, systems and controls (including accounting and management systems) adopted by us. The objectives of the Review were to assess the adequacy and effectiveness of internal control systems, identify if there are significant internal control weaknesses and make corresponding recommendations to us for rectification. The Review also assisted the Sponsor in conducting due diligence investigation on our management and accounting systems and internal control environment as required under Rule 3A.15(5) of the Listing Rules. KL CPA Limited recommended and we have implemented the policies to further improve the existing internal control processes, including but not limited to the prohibition of (a) granting loans or making advances to Directors, senior management or staffs; and (b) making advances to related parties apart from normal trading transactions arising from the ordinary course of business of ours.

The following table shows the rectifying measures launched by us upon recommendations by KL CPA Limited.

	<u>Rectifying measures taken or to be taken</u>
Non-Compliant Bill Financing	<p>Internal control review findings of KL CPA Limited confirmed that there was no indication that we had issued non-compliant bill since 2010 and there was no indication that we had other non-compliant bill financing arrangements during the Track Record Period. However, we adopted a series of rectifying measures to prevent recurrence of non-compliance in this area:</p> <ul style="list-style-type: none">— We should reinforce the internal supervising procedures and elaborate to all our Directors and senior management risks in relation to Non-Compliant Bill Financing.

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Rectifying measures taken or to be taken

- Our finance manager and procurement manager shall assure that all sums of money purported to support purchase of raw materials by way of bank acceptance notes and the entire procedure related to the application of those bank acceptance notes be reviewed thoroughly and the application has to be approved by the general manager. Bank acceptance notes issued for payment of purchase of raw materials from suppliers shall not be used for any other purposes other than the purchase of raw materials and shall be backed up by real transactions;
- Our finance manager shall conduct independent review regularly to ascertain if there are any differences between the actual amount of the transactions involving purchase of raw materials and the amount of bank acceptance notes issued for payment of purchases;
- If there is any difference between the actual amount of transaction and the amount of bank acceptance notes issued for payment of purchases, the finance manager shall report the difference to the General Manager and discuss with the latter the reasons for the difference so as to work out the measures to prevent the occurrence of such problems in the future; and
- We shall provide relevant trainings to all appointed Directors and relevant employees.

Our Directors confirmed that the above measures have been adopted since April 2012. KL CPA Limited is in the opinion that it is satisfied with our internal control system with the enhanced measures recommended.

Distribution network

We have launched the distributor management system to manage our Distributors, pursuant to such system:

- We shall divide the PRC market into several main regions, and further sub-divide each region into several smaller areas.

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Rectifying measures taken or to be taken

- For each region, we shall appoint one regional Distributor, who shall be responsible for distribution of our OBM products within one or several small areas within the region. For other small areas within that region, we shall appoint individual ordinary Distributors, who shall be subject to the supervision and management of our Group and the relevant regional Distributor. The regional Distributor will receive 0.5% rebate in kind based on the annual regional sales amount and the ordinary Distributor will receive 2% rebate in kind based on its own sales amount.
- We require our regional Distributors to look for and refer to us appropriate candidates of ordinary Distributors, as the regional Distributors usually have more information and better understanding for the local market.
- We shall enter into distribution agreements with both regional and ordinary Distributors. The terms of the new distribution agreements are largely the same with our original distribution agreements elaborated above, except that it is provided in our new distribution agreements, that ordinary Distributors shall be subject to the management of regional Distributors. As such, we can focus our attention mainly on the management of regional Distributors, who, with better understanding of the local market and being able to closely monitor the ordinary Distributors, can assist us to manage the ordinary Distributors.
- To better cooperate in the management of ordinary Distributors, we keep a register of Distributors and update the register each time when we appoint any new ordinary Distributor.
- The regional Distributors shall monitor and value the performance of the ordinary Distributors on an ongoing basis, and shall regularly report to us their valuation results. Based upon such reports and our own investigations, we shall make decision on whether we will increase or decrease our sales to both regional and ordinary Distributors, or terminate our business relationship with some of them with poor performance.

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Rectifying measures taken or to be taken

- In order to prevent cannibalisation, we will keep record on the distribution channels for each ordinary Distributor. In rare circumstances that a new ordinary Distributor proposed to distribute through an existing distribution channel, we will assess the proposed sales amount and compared with performance of the existing ordinary Distributor before changing to the new ordinary Distributor for the same distribution channel.

To select an ordinary Distributor, we mainly consider the working capital, sales record (if any), distribution channels, amount of target sales and the capacity of its sales team for each potential Distributor case by case.

To select a regional Distributor, we mainly consider their experience in the distribution of aerosol products, retail and brand management experience, logistics and distribution capabilities, financial resources, credit-worthiness, sales network and connection in the local markets and above all, their ability of introducing new ordinary Distributor.

Our Directors confirm that, as set out in the internal control report issued by KL CPA Limited pursuant to the Review, the distributor management system has been gradually launched since January 2013 and fully implemented in April 2013. KL CPA Limited will monitor and review the distributor management system on a ongoing basis. Our Directors consider that the above measures will ensure our better management and stronger control over our distribution network.

In addition to the above rectifying measures, we have also adopted the following internal control measures to ensure our continuous compliance with all applicable laws, regulations and the Listing Rules:

- We have engaged and will continue to engage KL CPA Limited to review our internal control system with the scope of review broadly similar to the existing scope and cover all major aspect of our operations. We will disclose the basis of decision on matters reviewed by the INEDs in our annual report.
- We will appoint ECF as compliance adviser to provide advice our Directors and senior management on matters in relation to the Listing Rules. Such appointment will be for a period commencing on the Listing Date and ending on the date which we distribute the annual report including its financial results for the first full financial year commencing after the Listing Date.

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- Our Audit Committee will (i) review the financial statements and related materials and provide advice in respect of the financial reporting process; (ii) oversee the internal control procedures of the Group; and (iii) review our compliance records and internal control system. The review result will be disclosed in our annual reports after the Listing.

There is no indication that any other major deficiencies exist in our internal control system, apart from the enhancements and improvements that could be made to further strengthen the internal control as advised by KL CPA Limited. Our Directors confirm that the Group's internal control measures are adequate and effective under Rule 3A.15(5) of the Listing rules. The Sponsor, after performing the following works, is of the view that our internal control measures are adequate and effective under Rule 3A.15(5) of the Listing Rules and that the non-compliance incidents in the preceding section would not affect our suitability for listing under Rule 8.04 of the Listing Rules:

- (i) considered and reviewed the internal control review report issued by KL CPA Limited which stated that we had formally implemented the specific rectifying measures in February 2013;
- (ii) considered the fact that KL CPA Limited completed the latest follow-up review in February 2013 and KL CPA Limited was satisfied with the result of the enhanced internal control measures relating to, *inter alia*, the distributorship business model and the prevention of future non-compliant bill financing; and
- (iii) interviewed and discussed with KL CPA Limited the issues concerning the progress of our implementation of the internal control measures.

LITIGATION

As confirmed by our Directors and our PRC Legal Adviser, during the Track Record Period and as at the Latest Practicable Date, we were not involved in any litigation, arbitration or claims or subjected to any administrative penalties of a material nature. No material litigation, arbitration, claim or administrative penalty is known to our Directors to be pending or threatened by or against us.

CONNECTED TRANSACTIONS

During the Track Record Period, we had entered into a number of transactions with connected persons of our Company, which constituted connected transactions with our Company pursuant to the Listing Rules. Our Directors confirm that they are of the view that these connected transactions were conducted in the normal course of business and were based on normal commercial terms. Details of the connected transactions are set out as below.

DISCONTINUED CONNECTED TRANSACTIONS

The following transactions were carried out by our Group during the Track Record Period. As the relevant transactions had been completed or terminated or the relevant party to the transactions had ceased to be Connected Person of our Company prior to Listing, these transactions are considered as discontinued connected transactions of our Group.

1. Disposal of Ludao (HK) to Mr. Yu

Ludao (HK) was incorporated in Hong Kong on 6 March 2008 and the entire issued share capital of which was owned by Ludao (BVI). Mr. Yu, who is a Director and a Controlling Shareholder, has been the sole director of Ludao (HK). Since the date of its incorporation, Ludao (HK) has not carried on business and remained inactive.

On 21 November 2012, Ludao (BVI) disposed of 1 share of Ludao (HK), which represented the entire issued share capital of Ludao (HK), at the consideration of HK\$1 to Mr. Yu. The disposal was done as part of the Reorganisation to streamline the structure of our Group.

As Ludao (HK) has no assets and has not carried on any business since its incorporation, our Directors (including the independent non-executive Directors) are of the view that the aforesaid disposal was entered into on normal commercial terms and the consideration was fair and reasonable.

To the best knowledge and belief of our Directors, Ludao (HK) was in the process of being dissolved as at the Latest Practicable Date.

2. Aerosol Can Purchase Agreement

On 30 December 2011, Ludao (PRC) and Zhejiang Lujia entered into an aerosol can purchase agreement for the purpose of controlling the cost of aerosol can and pursuant to which, Ludao (PRC) agreed to purchase and Zhejiang Lujia agreed to supply aerosol cans from 30 December 2011 to 31 December 2012 (the “**Aerosol Can Purchase Agreement**”). There is no minimum purchase requirement under the Aerosol Can Purchase Agreement.

Pursuant to the Aerosol Can Purchase Agreement, the purchase price of the aerosol cans should be decided by Ludao (PRC) and Zhejiang Lujia every quarter of the year and the purchase price should be fixed in respect of that particular quarter. No adjustment to the purchase price shall be made once the same is fixed. The parties also agreed that all the purchase price shall be settled within 2 months after the expiry of the Aerosol Can Purchase Agreement. However, if the outstanding purchase price amounted to more than RMB1 million, the portion in excess of RMB1 million shall be settled in the following month.

CONNECTED TRANSACTIONS

On 29 February 2012, Ludao (PRC) and Zhejiang Lujia entered into a supplemental agreement to the Aerosol Can Purchase Agreement, pursuant to which Ludao (PRC) agreed to prepay RMB30.00 million purchase money, representing approximately 50% of the annual projected amount of purchase, to Zhejiang Lujia before 10 March 2012 in consideration of Zhejiang Lujia agreeing to lock the purchase prices of various types of aerosol cans at the prices listed in the supplemental agreement for the period from 1 March 2012 to 31 December 2012, to reduce the impact of the fluctuation of the metal price on the aerosol cans and hence the purchase price of the aerosol cans. There is no minimum purchase requirement under the supplemental agreement. We can source aerosol cans from 2 alternative suppliers at comparable quality and unit price, save and except the aerosol cans sourced from the alternative suppliers have higher transportation cost and packaging cost.

Save and except prepaying to Zhejiang Lujia, our Directors confirmed that we also made prepayments to other third party suppliers during the Track Record Period. The respective amount of prepayments made to Zhejiang Lujia and other third party suppliers are comparable as the prepayment amount represents approximately 50% of the annual projected amount of purchase from the relevant suppliers. In respect of the above, our Directors consider that prepayment is an industry practice. As the prepayment of RMB30.00 million to Zhejiang Lujia was made consistent with industry practice and the said prepayment amount was subsequently off-set against the price of the goods supplied by Zhejiang Lujia to us, our Directors are of the view that the prepayment did not constitute any financial assistance from our Group to Zhejiang Lujia.

The terms of the Aerosol Can Purchase Agreement are similar to the terms (including but not limited to the duration, determination of price, credit period and method payment) of the other purchase agreements that our Group entered into with other third party suppliers for the same type and standard of aerosol cans save and except the settlement arrangement. The price-locking arrangement entered into by our Group with major suppliers (namely Supplier A and Supplier E) are on quarterly basis, which is the same as that of the Aerosol Can Purchase Agreement, but Supplier A and Supplier E did not enter into supplemental agreements to extend the locked-up period as in the case of Zhejiang Lujia.

Having compared the locked-up prices of Zhejiang Lujia against the purchase price of the same type of aerosol cans from other independent suppliers in respect of the same period from 1 March 2012 to 31 December 2012, the locked-up prices were relatively low. During the Track Record Period, the price of aerosol cans was in a decreasing trend with the approximately highest price per unit at RMB1.25 and the lowest price per unit at RMB1.05. As a result of the price-locking arrangement with Zhejiang Lujia, we generated a notional gain of approximately RMB0.96 million, RMB2.91 million, RMB1.02 million and RMB0.25 million respectively for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013. Meanwhile, notional gain of approximately RMB0.29 million, RMB23,000, RMB10,000 and RMB6,000 respectively for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 was generated pursuant to the terms of price-locking arrangements stipulated in the goods purchase agreement entered into with Supplier A and Supplier E as adjustments were made to the locked-up prices by the relevant parties for the Track Record Period. Though the amount of notional gain was insignificant versus the amount of purchase, we take the view that the price-locking arrangement was effective for us to stabilize the purchase price of aerosol cans. The total amount of aerosol cans purchased under price-locking arrangements between our Group and

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our suppliers during the Track Record Period was approximately RMB47.38 million, RMB67.38 million, RMB75.91 million and RMB14.48 million respectively. We are of the view that the price-locking arrangement does not constitute any kind of hedging activities as we are not obliged to purchase any aerosol can from Zhejiang Lujia under this price-locking arrangement.

Zhejiang Lujia is a manufacturer of aerosol cans which was established in the PRC in 2005. As at the date of the Aerosol Can Purchase Agreement, it was owned as to 5% by Mr. Wang Song Song (王松松), 50% by Fujian Guan Gai and 45% by Mr. Yu Afu, who is the father of Mr. Yu. Mr. Yu Afu invested a total of RMB4.5 million in respect of his 45% equity interest of Zhejiang Lujia and the fund was from his own wealth. As Mr. Yu is a Director and Controlling Shareholder, Zhejiang Lujia was therefore a Connected Person of our Company and the Aerosol Can Purchase Agreement constituted connected transaction of our Company.

Zhejiang Lujia is located in the vicinity of our Feng Keng Production Plant, thus the cost of transportation of the aerosol cans to us is low and the purchase price of the aerosol cans are accordingly lower. Neither the Controlling Shareholders nor us has invested in Zhejiang Lujia. There has not been any overlapping of directors and senior management of Zhejiang Lujia with that of our Group. To the best knowledge and belief of the Directors, Zhejiang Lujia has approximately 4 customers as at the Latest Practicable Date and the purchase by us represented approximately 98.56% of the total sales of Zhejiang Lujia in respect of the financial year ended 31 December 2011.

On 27 August 2012, Mr. Yu Afu, Mr. Wang Song Song (王松松), Fujian Guan Gai and Mr. Xu Weiping (徐卫平) entered into a transfer agreement pursuant to which Mr. Yu Afu and Mr. Wang Song Song (王松松) disposed of their interests in Zhejiang Lujia to Mr. Xu Weiping (徐卫平), who is an Independent Third Party and also independent from and not connected with Mr. Yu Afu. To the best knowledge and information of our Directors, there is no relationship among Fujian Guan Gai, Mr. Xu Weiping (徐卫平) and Mr. Yu Afu other than their business relationship in relation to Zhejiang Lujia.

Mr. Yu Afu disposed of his interests in Zhejiang Lujia at the consideration of RMB4.5 million, which was determined with reference to his contribution to the registered capital of Zhejiang Lujia, as part of his retirement plan so as to focus on his operation of Yiwu Weiwei. Although Mr. Yu Afu had approached a few potential buyers of Zhejiang Lujia in June 2012, all the potential buyers expressed that they had concern on the high concentration of few customers of Zhejiang Lujia. As a result, all the potential buyers did not make any offer to Mr. Yu Afu save for Mr. Xu Weiping (徐卫平) who agreed to acquire Mr. Yu Afu's interest in Zhejiang Lujia at such consideration. Thus, Mr. Yu Afu considered that the consideration of RMB4.5 million represented the fair value of his interest of Zhejiang Lujia in light of the limited number of interested buyers in the market and high dependence of few customers of Zhejiang Lujia. Save and except the transfer agreement, Mr. Yu Afu and/or us and Zhejiang Lujia did not enter into other side agreement relating to the disposal of equity interests in Zhejiang Lujia. As a result of the disposal, the equity interest of Zhejiang Lujia was owned as to 50% by Fujian Guan Gai and 50% by Mr. Xu Weiping (徐卫平). Accordingly, the Aerosol Can Purchase Agreement will not constitute a continuing connected transaction under the Listing Rules upon Listing.

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Notwithstanding the change of shareholders of Zhejiang Lujia on 27 August 2012 as stated above, Ludao (PRC) and Zhejiang Lujia continued to carry out the Aerosol Can Purchase Agreement in accordance with its terms. After the expiry of the Aerosol Can Purchase Agreement, Ludao (PRC) and Zhejiang Lujia entered into a renewal agreement dated 24 December 2012 on substantially similar terms with the price-locking and prepayment arrangement in order to manage the price fluctuations of the aerosol cans. Ludao (PRC) and Zhejiang Lujia agreed to lock the purchase prices of various types of aerosol cans at the prices listed in the renewal agreement for the period from 24 December 2012 to 31 December 2013. The unit price of the aerosol cans under the renewal agreement is similar to that of the Aerosol Can Purchase Agreement. There is no minimum purchase requirement under the renewal agreement.

Zhejiang Lujia was our largest supplier for the first quarter in 2013 and the Directors expect that Zhejiang Lujia will remain our largest supplier for 2013.

Our Directors (including the independent non-executive Directors) are of the view that the Aerosol Can Purchase Agreement, together with its supplemental agreement, and the renewal agreement were entered into on normal commercial terms.

Given the price-locking arrangement and the prepayment arrangement as set out above, the Sponsor takes the view that the transactions between our Group and Zhejiang Lujia during the Track Record Period were conducted on normal commercial terms taking into accounts, *inter alia*, the facts that the prepayment arrangement was an industry norm as our Group also prepaid part of the purchase prices to other third party suppliers, the price-locking arrangement could help the Group stabilizing its costs of production and planning its budget for production in advance and in retrospect, the locked-up prices with Zhejiang Lujia were relatively low in comparison with the purchase price of the same type of aerosol cans purchased from other suppliers.

3. Land Security and Personal Guarantee

Shanghai Pudong Development Bank (上海浦東發展銀行) issued non-interest bearing bank acceptance notes (the “Notes”) to Ludao (PRC) in the amount of RMB6.70 million from 3 November 2008 to 10 May 2010 and in the amount of RMB15.00 million from 2 August 2010 to 2 August 2012.

To secure the repayment of the Notes, Zhejiang Lujia pledged its land use right of the land (together with the buildings erected thereon) located at No. 201003076 and 201003077 of Feng Keng, Haiyou Town, Sanmen County, Zhejiang Province, the PRC (中國浙江省三門縣海游鎮楓坑第201003076號及第201003077號) (the “Land Security”) in favour of the creditor bank. Zhejiang Lujia is the registered owner of the aforesaid land and buildings and no security nor consideration was given by the Group to Zhejiang Lujia for providing the Land Security.

In addition to the Land Security, Mr. Yu and Mrs. Yu provided personal guarantee (the “Personal Guarantee”) to secure the repayment of the Note in the amount of RMB15.00 million for the period from 2 August 2010 to 2 August 2012. No security nor consideration has been given by the Group to Mr. Yu and Mrs. Yu for providing the Personal Guarantee.

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The Notes have been fully repaid in August 2012. The Land Security and Personal Guarantee have also been released by the creditor bank.

As discussed under the paragraph of “Aerosol Can Purchase Agreement” above, Zhejiang Lujia was a Connected Person of our Company but ceased to be a Connected Person with effect from 27 August 2012. Mr. Yu is the Director and also a Controlling Shareholder, hence Mr. Yu and his wife, Mrs. Yu, are Connected Persons of our Company.

The Directors (including the independent non-executive Directors) are of the view that the Land Security and Personal Guarantee were provided for the benefit of our Company on normal commercial terms.

4. Guarantee

On 1 November 2010, a facility of RMB30.00 million was granted to Ludao (PRC) by Industrial Bank Co., Ltd. (興業銀行) in respect of the period from 1 November 2010 to 1 November 2012. Mr. Yu and Mrs. Yu provided personal guarantee to secure the repayment of the said facility. No security nor consideration has been given by our Group to Mr. Yu and Mrs. Yu for providing such security.

The facility was terminated and replaced by another facility of RMB35.00 million, which was granted on 13 September 2011 to Ludao (PRC) by Industrial Bank Co., Ltd. (興業銀行) for a period of 3 years. To secure the repayment of the facility, Mr. Yu and Mrs. Yu provided a personal guarantee of RMB35.00 million in favour of the creditor bank for the period from 13 September 2011 to 31 October 2012 and the amount of the said guarantee increased to RMB37.00 million from 1 November 2012. No security nor consideration has been given by our Group to Mr. Yu and Mrs. Yu for providing the personal guarantee.

The security will be released upon Listing and the facility will be secured by the assets of our Group.

Mr. Yu is the Director and also a Controlling Shareholder, hence Mr. Yu and his wife, Mrs. Yu, are Connected Persons of our Company.

Our Directors (including the independent non-executive Directors) are of the view that the personal guarantees were provided for the benefit of our Company on normal commercial terms.

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NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction has been carried out between our Connected Person and us during the Track Record Period and is expected to be continued following the Listing. The transaction will constitute continuing connected transaction which is not exempt from the reporting, annual review, announcement requirements as set out in Chapter 14A of the Listing Rules upon Listing:

Yiwu Weiwei Distribution Agreement

Terms of the Yiwu Weiwei Distribution Agreement

On 16 September 2013, Ludao (PRC) and Yiwu Weiwei entered into a distribution agreement, pursuant to which Ludao (PRC) agreed to engage Yiwu Weiwei as the non-exclusive distributor of the products of Ludao (PRC) in Yiwu City of Zhejiang Province, the PRC, from the Listing Date to 31 December 2015. The selling price of our Group's products to Yiwu Weiwei shall be the uniform wholesale prices of the products offered by our Group to other Distributors within the PRC. Our Group shall arrange for the delivery of the products to Yiwu Weiwei within 7 days after the consideration is received. Being an ordinary Distributor, an annual sales target of approximately RMB3.50 million (equivalent to approximately HK\$4.37 million) is set in Yiwu Weiwei Distribution Agreement and such annual sales target will be prorated in respect of the year of 2013. If 100% and above of the said sales target is met by Yiwu Weiwei, a rebate will be made to Yiwu Weiwei at an annual rate of 2%.

The major terms of the Yiwu Weiwei Distribution Agreement are similar to the major terms of the other non-exclusive distribution agreements that our Group entered into with independent Distributors save that the area of distribution, sales target and rebate rate in respect of each independent Distributor vary. Usually, the independent Distributors have lower annual sales target and the term of the non-exclusive agreements with independent Distributors are for around one year. Our Directors confirmed that from April 2013, we no longer offer credit period to Yiwu Weiwei, so that the credit period granted to Yiwu Weiwei is comparable to the credit period granted to the other OBM Distributors which are usually comparatively low.

Historical Figures and Annual Caps

Pursuant to the distribution agreements we entered into with Yiwu Weiwei annually, the annual amount of sales to Yiwu Weiwei for the three years ended 31 December 2010, 2011 and 2012 and for the three months ended 31 March 2013 was approximately RMB3.82 million, RMB6.22 million, RMB15.22 million and RMB0.20 million respectively. During the Track Record Period, as our OBM business was still in the early stage of development, we had to leverage on the established distribution network of the distributors for expansion. Our Directors are of the view that Yiwu Weiwei has good distribution network in Yiwu City in the Zhejiang Province, which is famous for its small commodity trade and vibrant free markets in China and hence it is in the interest of our Group to continue the transaction with Yiwu Weiwei. Yiwu Weiwei's contribution was to enhance the brand awareness and market recognition of our OBM products due to its location and distribution network as a whole. During the Track Record Period, the size of our OBM business grew and thus, our bargaining power to engage larger distributors or distributors of higher profile to distribute our OBM products had grown correspondingly. We have also built up market recognition of our OBM products in recent years. Therefore, we will alleviate our reliance on Yiwu Weiwei for the sale and distribution of our OBM

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products and thus, we have appointed an additional Distributor in Yiwu City for distribution of our OBM products. This new Distributor's purchase of our OBM products amounted to approximately RMB2.74 million for the three months ended 31 March 2013. As a result, the sales to Yiwu Weiwei had been decreasing during the corresponding period. We anticipate that the sales to Yiwu Weiwei will decrease and estimate that the annual cap for Ludao (PRC)'s total sales to Yiwu Weiwei for the three years ending 31 December 2013, 2014 and 2015 will not be more than approximately RMB0.88 million (equivalent to approximately HK\$1.09 million), RMB3.50 million (equivalent to approximately HK\$4.37 million) and RMB3.50 million (equivalent to approximately HK\$4.37 million) respectively.

Information on Yiwu Weiwei

Yiwu Weiwei is a Distributor with established distribution network located at Yiwu City as Mr. Yu Afu has commenced its business in the sale and distribution of small commodities in Yiwu City since 2005. Yiwu City is a well known area for trading and distribution of small commodities in PRC. Yiwu Weiwei is an unincorporate of which Mr. Yu Afu is the sole proprietor. Mr. Yu Afu set up Yiwu Weiwei with his own funds. Neither Mr. Yu nor us had invested in Yiwu Weiwei. There has not been any overlapping of personnel of Yiwu Weiwei with that of our Group. To the best knowledge and belief of our Directors, we are the sole supplier of Yiwu Weiwei.

Listing Rules Implications

Mr. Yu Afu, who is the father of Mr. Yu, is the sole proprietor of Yiwu Weiwei. Therefore, Yiwu Weiwei is a Connected Person of our Company and the Yiwu Weiwei Distribution Agreement constitutes a continuing connected transaction under the Listing Rules upon Listing.

As the relevant applicable percentage ratio(s) with respect to the transaction contemplated under the Yiwu Weiwei Distribution Agreement on an annual basis is less than 5% and the expected consideration to be received by us under the Yiwu Weiwei Distribution Agreement on an annual basis is more than HK\$1 million, therefore, the transaction contemplated under the Yiwu Weiwei Distribution Agreement will constitute a continuing connected transaction for our Company exempt from independent shareholders' approval requirement by virtue of Rule 14A.34 of the Listing Rules, but is subject to the reporting, annual review and announcement requirements under the Listing Rules.

WAIVER FROM THE STOCK EXCHANGE

Given the recurring nature and the fact that the Yiwu Weiwei Distribution Agreement was entered into prior to the Listing Date, our Directors consider that compliance with the announcement requirement would be impractical and would add unnecessary administrative costs to our Company. Accordingly, we, pursuant to Rule 14A.42(3) of the Listing Rules, have applied for, and the Stock Exchange has granted to us a waiver with respect to Yiwu Weiwei Distribution Agreement from the announcement requirement on the condition that the aggregate value of the transactions contemplated under the Yiwu Weiwei Distribution Agreement for the three years ending 31 December 2013, 2014 and 2015 will not exceed the annual caps as stated above. We confirm that we will comply with the requirements under Chapter 14A of the Listing Rules and in the event of any future amendments to the Listing Rules imposing more stringent requirements than those current provisions under Chapter 14A of the Listing Rules, we will take immediate steps to ensure compliance with such requirements within a reasonable period.

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CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) confirm that the Yiwu Weiwei Distribution Agreement has been entered into in the ordinary and usual course of business of our Group on normal commercial terms and the terms of the Yiwu Weiwei Distribution Agreement, including the proposed annual caps, are fair and reasonable. As such, our Directors (including the independent non-executive Directors) confirm that it is in the interest of our Shareholders and our Group as a whole to continue with the Yiwu Weiwei Distribution Agreement after Listing. In the event that we enter into any new transactions or agreements with any Connected Person in the future, we will comply with the relevant provisions of Chapter 14A of the Listing Rules.

CONFIRMATION FROM THE SPONSOR

The Sponsor confirms that the Yiwu Weiwei Distribution Agreement has been entered into in the ordinary and usual course of business of our Group on normal commercial terms. Having considered the past transactions between Yiwu Weiwei and our Group, the terms of the Yiwu Weiwei Distribution Agreement including pricing and credit terms, our future plan and the basis and assumptions of arriving at the proposed annual caps, the Sponsor is of the view that the terms of the Yiwu Weiwei Distribution Agreement, including the proposed annual caps, are fair and reasonable and in the interests of the Shareholders as a whole.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

The Board of Directors consists of six Directors, including three executive Directors and three independent non-executive Directors. The following table sets forth the brief particulars of the Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Responsibilities</u>	<u>Appointment Date</u>
Mr. YU Yuerong (虞岳榮)	46	Chairman and Executive Director	Overall strategic planning and corporate policy making	25 May 2012
Mr. Han Jianhua (韓劍華)	54	Executive Director	Formulating the overall business strategies and corporate development	11 June 2012
Ms. Pan Yili (潘伊莉)	38	Executive Director	Formulating the overall business strategies and market development	11 June 2012
Mr. Wong Chi Wai (黃馳維)	47	Independent non- executive Director	Providing advice on the financial aspects of the Group's business and also the chairman of the Audit Committee and Remuneration Committee	16 September 2013
Ms. Cho Mei Ting (曹美婷)	50	Independent non- executive Director	Providing general business management advice to the Board and also the chairlady of the Nomination Committee	16 September 2013
Mr. Ruan Lianfa (阮連法)	59	Independent non- executive Director	Providing general business management advice to the Board	16 September 2013

Executive Directors

Mr. Yu Yuerong (虞岳榮), aged 46, is an executive Director and chairman and one of the Controlling Shareholders of our Group. He is also a director of all the subsidiaries of our Company. Mr. Yu is the founder of our Group and is primarily responsible for the overall strategic planning and corporate policy making for the operational direction of our Group. Mr. Yu obtained a bachelor's degree in Business Administration from Open University of China* (中央廣播電視大學) via distance learning in April 2000, and graduated from a Finance and Commerce Programme for Senior Director* (工商管理高級總裁研修班) conducted by Continuing Education of Zhejiang University* (浙江大學繼續教育學院) in 2008. Mr. Yu has over 20 years of extensive experience in PRC's factory operation and corporate management. Prior to joining our Group, Mr. Yu has worked in the capacity of manager and chairman respectively for Taizhou Yizhou Industrial Company* (台州一洲工業公司) from June 1992 to February

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1998 and Zhejiang Huangyan Yizhou Group Limited* (浙江黃岩一洲集團有限公司) from March 1998 to August 2003, both of which are engaged in the production of daily-use chemical products, and Mr. Yu was responsible for managing the overall manufacturing operation of the factories. Mr. Yu receives Honorary Credential of Celebrity Entrepreneur of Sanmen County 2011* (二零一一年度三門縣明星企業家) from Sanmen County People's Government* (三門縣人民政府). Mr. Yu was elected in March 2012 as a committee member of and by the Sanmen County of the Chinese People's Political Consultative Conference* (中國人民政治協商會議三門縣委員會). In 2013, Mr Yu is elected as a committee member of and by the Sanmen County's Industry and Commerce Federation* (三門縣工商業聯合會) and receives Honorary Credential of the 13th Excellence Entrepreneur of Taizhou City* (第十三次台州市優秀企業家).

Mr. Han Jianhua (韓劍華), aged 54, is an executive Director. Mr. Han joined our Group in August 2008, he is primarily responsible for formulating the overall business strategies and corporate development of our Group. He obtained a graduate certificate in Economic Management in June 1990 from Correspondence Institute of the Party School* (中央黨校函授學院). Mr. Han has over 20 years of extensive experience in PRC's factory operation and corporate management. Mr. Han had worked in the capacity of production vice-manager for Huangyan Zhou Cheng Factory* (黃岩軸承廠) from December 1978 to April 1990 and as general manager for Zhejiang Huangli Zhou Cheng Limited* (浙江黃立軸承有限公司) from December 1992 to December 1995. Both companies are engaged in the production of mechanical parts and Mr. Han was responsible for production management. From January 1996 to September 2001, Mr. Han was a general manager and director of another mechanical parts manufacturer i.e. Zhejiang Huangyan Hua Xin Zhou Cheng Limited* (浙江黃岩華鑫軸承有限公司) for over 5 years responsible for managing the overall manufacturing operation of the company.

Ms. Pan Yili (潘伊莉), aged 38, is an executive Director. Ms. Pan joined our Group in 2003, she is primarily responsible for formulating the overall business strategies and market development of our Group. She obtained a graduate certificate in Chemical Engineering in June 1993 from Vocational School of Huangyan* (黃岩市職業技術學校). Ms. Pan received a bachelor's degree in Business Administration from Open University of China* (中央廣播電視大學) via distance learning in January 2012. Ms. Pan has over 10 years of corporate marketing and management experience. Prior to joining our Group, Ms. Pan has worked in the capacity of strategic planner for Taizhou Yizhou Industrial Company* (台州一洲工業公司) from January 1997 to December 1998 and Zhejiang Huangyan Yizhou Group Limited* (浙江黃岩一洲集團有限公司) from January 1999 to February 2003, both of which are engaged in the production of daily-use chemical products where she was responsible for liaison and finance work respectively.

Non-executive Directors

Independent non-executive Directors

Mr. Wong Chi Wai (黃馳維), aged 47, is an independent non-executive Director. Mr. Wong currently also serves as an independent non-executive director for Bonjour Holdings Limited (stock code 653), Kin Yat Holdings Limited (stock code 638) and Arts Optical International Holdings Limited (stock code 1120), all of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director for South West Eco Development Limited (stock code 8291) which is listed on the Growth Enterprise Market of the Stock Exchange. He is currently the chairman of the audit committee of Bonjour Holdings Limited, Arts Optical International Holdings Limited, South West Eco

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Development Limited and the chairman of the nomination committee of Kin Yat Holdings Limited. Mr. Wong obtained a bachelor's degree in social science from and was awarded postgraduate certificate in laws by the University of Hong Kong in 1988 and 1993 respectively. Mr. Wong is a practicing certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Wong has also been admitted as a barrister of the High Court of Hong Kong since 1998. Mr. Wong has over 24 years of experience in the accountancy profession and he is currently the owner of a certified public accountants firm in Hong Kong, Albert Wong & Co.

Mr. Wong was a director of Tin Tin Publication Development Limited (“**Tin Tin**”) during the periods from 3 June 2000 to 31 August 2000 and from 18 December 2000 to 27 June 2002. Tin Tin was incorporated in Hong Kong, engaging in the publication business. Mr. Wong confirmed that he had never participated in the management of Tin Tin during his appointment as a director of Tin Tin. His re-appointment on 18 December 2000 as a director of Tin Tin was for the sole purpose of constituting a valid board quorum pursuant to the articles of association of Tin Tin so that Tin Tin could enter into settlement agreements with and release funds to its creditors after Tin Tin lost a court case in the Court of Final Appeal in July 2000. A judgment creditor obtained a judgment against Tin Tin on or about 11 January 2002 for a sum of approximately HK\$4.68 million and then applied to the Court for the winding-up of Tin Tin. The order for the winding-up of Tin Tin was granted on 7 August 2002. No further information about the progress of the winding-up of Tin Tin is available after the resignation of Mr. Wong as a director of Tin Tin on 27 June 2002. Mr. Wong confirmed that this incident had been duly disclosed to the Stock Exchange at the time when Mr. Wong was first appointed as an independent non-executive director of Bonjour Holdings Limited in 2003 and his subsequent appointments as an independent non-executive director of each of Kin Yat Holdings Limited and Arts Optical International Holdings Limited in 2004 and South West Eco Development Limited in 2012.

However, due to oversight, Mr. Wong omitted to mention his directorship in Tin Tin when he filled the application form for application of membership of the Hong Kong Federation of Insurers (“**HKFI**”) in May 2004. Mr. Wong subsequently informed HKFI of his omission in July 2004 and HKFI decided to suspend his membership as an insurance agent for 9 months until June 2005. Mr. Wong confirmed that he had disclosed the decision of the HKFI to the Stock Exchange in October 2004.

Ms. Cho Mei Ting (曹美婷), aged 50, is an independent non-executive Director. Ms. Cho holds a bachelor's degree in Arts from The University of Hong Kong in November 1986 and a bachelor's degree in laws from Manchester Metropolitan University in September 2000. Ms. Cho further obtained a postgraduate certificate in laws from The University of Hong Kong in June 2001. She is a qualified solicitor and has been practicing law in Hong Kong since 2003. She had worked for several solicitor firms during 2004 to 2010. Ms. Cho is currently the sole proprietor of Messrs. Cho Mei Ting & Co., Solicitors which she founded in 2010.

Mr. Ruan Lianfa (阮連法), aged 59, is an independent non-executive Director. Mr. Ruan holds a bachelor's degree in Civil Engineering and a master's degree in Engineering both from Zhejiang University* (浙江大學) in February 1980 and April 1996 respectively. Since his graduation in 1980, Mr. Ruan has served as a lecturer and a researcher in Zhejiang University* (浙江大學). Currently, he is head of the Civil Engineering Management Research Institute* (土木工程管理研究所所長) of Zhejiang University* (浙江大學), and the dean of Continuing Education of Zhejiang University* (浙江大學繼續教育學院院長).

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Please refer to paragraph headed “Disclosure of Interests — Particulars of service contracts” in Appendix V of this prospectus for information regarding particulars of the Directors’ service contracts and emoluments and information regarding their respective interest (if any) in the Shares within the meaning of Part XV of the SFO. As at the Latest Practicable Date, save as the interests of Mr. Yu in the Shares which are disclosed herein, none of the Directors has any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, each of our Directors did not hold directorships in other companies which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date.

Save as disclosed above, to the best of knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

Each of our Directors confirms that he/she does not have interest in any business that competes or is likely to compete, either directly or indirectly, with our Group’s business.

SENIOR MANAGEMENT

Mr. He Haibo (何海波), aged 34, is our Chief Financial Officer. Mr. He joined our Group in 2012 and is primarily responsible for overseeing the financial and accounting operations of our Group and supervising our internal control. He has approximately 2 years of experience in accounting and financial management. Mr. He studied accounting and graduated from Hunan Tertiary School of Finance* (湖南財經高等專科學校) in June 2002. Prior to joining our Group, Mr. He has worked for two private enterprises from 2010 to 2012 in the PRC in the capacity of financial consultant and financial manager, and was responsible for reviewing financial information of such companies.

Mr. Deng Bing (鄧斌), aged 49, is our Administrative Director. Mr. Deng joined our Group in 2012. He is primarily responsible for overseeing the overall administration of our Group. Mr. Deng obtained a bachelor’s degree in Physics in 1985 from Shaanxi Normal University* (陝西師範大學). From 2007 to 2012, Mr. Deng worked at a manufacturer of valves first as office manager and was promoted to assistant general manager in 2009, being responsible for overseeing the internal operation of the Company.

Mr. Wang Yongfei (王永飛), aged 38, is our Chief Production Officer and joined our Group in 2003. Mr. Wang is primarily responsible for overseeing the production operation of our Group. Mr. Wang has over 20 years of extensive experience in factory production management. Prior to joining our Group, Mr. Wang was a production supervisor of a manufacturer from 1995 to 2001 in the PRC that is engaged in the production of daily-use chemical products, and Mr. Wang was responsible for the management of the manufacturing operation.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. Xue Yingchun (薛迎春), aged 38, is our Deputy General Manager. Prior to joining our Group, Ms. Xue worked at a trading company from 2000 to 2002 in the PRC as an administrative officer, being responsible for providing administration support in relation to overseas sales. She joined our Group in 2003 and is primarily responsible for the administration and liaison work of our Group.

Mr. Xu Zhiyong (徐智勇), aged 43, is our General Manager of Marketing. Mr. Xu has over 10 years of experience in sales and marketing. Prior to joining our Group, Mr. Xu has worked in the capacity of assistant manager, sales manager and sales director for various manufacturers from 1998 to 2011 in the PRC that are engaged in the manufacturing of daily-use chemical products, and Mr. Xu was responsible for managing the domestic sales and marketing of such companies. Mr. Xu joined us in August 2011. He is primarily responsible for the formulation and implementation of our Group's marketing and promotion strategies. Mr. Xu obtained a bachelor's degree in Mechanic Engineering in July 1992 from Chongqing University* (重慶大學).

Mr. Wang Xiaobing (王小兵), aged 39, is the head of our research and development department who joined our Group in 2010. He is primarily responsible for overseeing the research and development centre and monitoring the quality control of our Group. Prior to joining our Group, Mr. Wang had worked for a subsidiary of China Flavors Group which is mainly engaged in the provision of flavors and fragrances for various uses including daily chemical products in various capacity including engineer of the daily chemical product center (日化應用中心), technical manager and general supervisor of the department for daily-use fragrance and flavors (日化香精事業部). He was also responsible for research and development on daily chemical products and technical communication and services. Mr. Wang studied applied chemistry and graduated from Nanchang Vocational Technology Normal University* (南昌職業技術師範學院) in July 1998.

Each of the senior management did not hold directorships in other companies which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date.

COMPANY SECRETARY

Mr. Li Wai See (李偉思), aged 52, is our Company Secretary. Mr. Li holds a bachelor of laws degree from City University of Hong Kong in November 1997. He obtained Master of Laws in Chinese and Comparative Law in November 1999 and Master of Arts in Electronic Business in November 2002, both from City University of Hong Kong. Mr. Li further obtained the degree of Master of Corporate Governance via distance learning in December 2003 from The Open University of Hong Kong. Mr. Li has over 8 years of experience in company secretarial administration and accounting, and is currently a director of Orion CPA Limited, a private Certified Public Accountants company. He is an associate member of Hong Kong Institute of Certified Public Accountants, Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administration of London, and the Institute of Chartered Accountants in England and Wales.

COMPLIANCE ADVISOR

In accordance with Rule 3A.19 of the Listing Rules, we will appoint ECF to be the compliance advisor, who will have access to the authorised representatives, Directors and other officers at all times. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Share Offer in a manner different from that detailed in the listing document or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in the listing document; and
- where the Exchange makes an inquiry of the listed issuer under Rule 13.10 of the Listing Rules.

The compliance adviser's agreement between compliance adviser and our Company are expected to include the following:

- (a) we will appoint ECF as compliance adviser for a period commencing on the Listing Date and ending on the date which we distribute the annual report including its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement;
- (b) the compliance adviser shall provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines; and
- (c) we shall have the right to terminate the appointment of the compliance adviser under the agreement if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within thirty days) over fees payable by our Company to the compliance adviser pursuant to Rule 3A.26 of the Listing Rules. The compliance adviser shall have the right to terminate its appointment as a compliance adviser in accordance with the terms of the agreement.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD COMMITTEE

Audit Committee

We established an audit committee on 16 September 2013 with written terms of reference as suggested under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of our committee comprise Mr. Wong Chi Wai (黃馳維), Ms. Cho Mei Ting (曹美婷) and Mr. Ruan Lianfa (阮連法), all of whom are independent non-executive Directors. The chairman of our audit committee is Mr. Wong Chi Wai (黃馳維). The primary duties of our audit committee are, among other things, to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, to monitor the reporting of our Company's financial statements and annual report and accounts and half-year report, and to review our financial controls, internal control and risk management systems.

Remuneration Committee

We established a remuneration committee on 16 September 2013 with written terms of reference as suggested under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of our remuneration committee comprise Mr. Wong Chi Wai (黃馳維), Ms. Cho Mei Ting (曹美婷), Mr. Ruan Lianfa (阮連法) and Mr. Yu. The chairman of our remuneration committee is Mr. Wong Chi Wai (黃馳維). The primary duties of our remuneration committee are mainly to make recommendations to the Board on our policy and structure for all Directors' and senior management's remuneration, to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management personnel.

Nomination Committee

We established a nomination committee on 16 September 2013 with written terms of reference as suggested under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of our nomination committee comprise Mr. Wong Chi Wai (黃馳維), Ms. Cho Mei Ting (曹美婷), Mr. Ruan Lianfa (阮連法) and Mr. Yu. The chairlady of our nomination committee is Ms. Cho Mei Ting (曹美婷). The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for directors of the Company.

CORPORATE GOVERNANCE

Our Directors aim to achieve high standards of corporate governance which is crucial to the development of the Group and safeguard the interests of our Shareholders. To accomplish this, the Company has adopted the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

REMUNERATION OF DIRECTORS

The aggregate amount of fees, salaries, allowances and benefits in kind paid by our Group to the Directors for the three years ended 31 December 2010, 2011 and 2012 and for the three months ended 31 March 2013 amounted to approximately RMB0.34 million, RMB0.28 million, RMB0.31 million and RMB79,000 respectively. Under the respective service contracts of the Directors, the aggregate emoluments (excluding payment pursuant to any discretionary bonus or granting of share options) payable by our Group to our Directors (including the independent non-executive Directors) for the year ending 31 December 2013 will be approximately RMB0.42 million. Our Director's remuneration policy after the Listing will be substantially the same as our remuneration policy for the year ended 31 December 2012. It is expected that for the year ending 31 December 2013, there will be no material increment in the remuneration of our executive Directors (excluding payment pursuant to any discretionary bonus or granting of options). For further details of the service contracts of our Directors and their respective remuneration after Listing, please refer to the paragraph headed "Disclosure of Interests — Particulars of service contracts" in Appendix V of this prospectus.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following the Listing, Ludao Investments and Mr. Yu are the Controlling Shareholders of our Company who are entitled to exercise or control the exercise 30% or more of the voting power at the general meetings of our Company, irrespective of whether the Offer Size Adjustment Option is exercised partially or fully, or at all.

Please refer to the paragraph headed “Disclosure of Interests” in Appendix V of this prospectus for details on disclosures of interests of Controlling Shareholders under SFO.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Neither Ludao Investments nor Mr. Yu controls or conducts any business which competes, or is likely to compete, with our business. Our Directors are satisfied that we can carry on our business independently of our Controlling Shareholders following the Listing for the following reasons:

Management independence and administrative independence

Although the Controlling Shareholders will retain a controlling interest in our Group after the Listing Date, the day-to-day management and our operation of the business will be the responsibility of the executive Directors and senior management. Our Board has 6 Directors comprising 3 executive Directors and 3 independent non-executive Directors. Our independent non-executive Directors are experienced professionals in different areas and are appointed pursuant to the requirements of the Listing Rules to ensure that they will be able to provide our Board with independent and impartial opinions. Our Board and senior management operate independently of the Controlling Shareholders and they are in a position to fully discharge their duties to the Shareholders as a whole after the Listing without reliance on the Controlling Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and Shareholders as a whole, and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and the Directors or any of their respective Associates, the interested Director(s) shall abstain from voting at our relevant Board meetings in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out our business decisions independently.

We have established a set of organisational structure made up of individual departments, each with specific areas of responsibilities. We have our own capabilities and personnel to perform all essential administrative functions including financial and accounting management, and general business management. Our secretary and senior management staff are independent of the Controlling Shareholders. In addition, we have established a set of internal controls to facilitate the effective operation of its business.

Our Directors currently do not expect that following the Listing, there will be any material business transactions between the Controlling Shareholders and our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the reasons above, our Directors are satisfied that they are able to perform their roles independently, and our Directors, including the independent non-executive Directors, are of the view that we are capable of managing and operating its business independently from the Controlling Shareholders after Listing.

Business operational independence

Our Group entered into Yiwu Weiwei Distribution Agreement with Yiwu Weiwei on 16 September 2013 in relation to the distribution of our products in the Yiwu City of Zhejiang Province, which constitutes our continuing connected transaction upon Listing, details of which are disclosed under the section “Connected Transaction” of this prospectus. Yiwu Weiwei is controlled by Mr. Yu Afu, who is an Associate of a Controlling Shareholder, and is one of our top 5 customers during the Track Record Period. For the year ended 31 December 2012, our total sales to Yiwu Weiwei amounted to approximately RMB15.22 million and represented approximately 6.65% of our total sales for the relevant period. Yiwu Weiwei is restricted to distribute our products in Yiwu City only and we have entered into distributions agreements with other independent Distributors in respect of other areas in the PRC. We do not rely on Yiwu Weiwei to distribute our products, we can easily engage additional Distributors to distribute our products in Yiwu City or replace the distributorship of Yiwu Weiwei by other Distributors.

During the Track Record Period, we have entered into Aerosol Can Purchase Agreement (and the supplemental agreement thereto) with Zhejiang Lujia in relation to our purchase of aerosol cans from Zhejiang Lujia. Mr. Yu Afu (being an Associate of a Controlling Shareholder) held 45% of equity interest in Zhejiang Lujia as at the date of the Aerosol Can Purchase Agreement, but the said interest was disposed of pursuant to a transfer agreement dated 27 August 2012 to an Independent Third Party, who is also independent from and not connected with Mr. Yu Afu. Since then, Mr. Yu Afu ceased to have any relationship with Zhejiang Lujia and hence we do not have any reliance on the Controlling Shareholders (or their Associates) in respect of our sales. Details of the Aerosol Can Purchase Agreement are disclosed under the paragraph headed “Connected Transactions — Discontinued connected transactions” of this prospectus.

Our Directors are of the view that our Group’s business operation does not rely on the Controlling Shareholders and our Group can operate independently.

Financial independence

Our Group’s outstanding bank borrowings and note payable as at 31 March 2013 was approximately RMB58.67 million.

Our Directors are of the opinion that, taking into account the present available facilities and internal resources of our Group, we have sufficient working capital for at least the next 12 months from the date of this prospectus.

Since we have our own internal control and accounting systems, accounting and finance department, as well as independent access to third party financing, our Directors believe that we are financially independent from the Controlling Shareholders and their Associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

NON-COMPETITION UNDERTAKING

Mr. Yu Afu, the father and hence an Associate of Mr. Yu, is the sole proprietor of Yiwu Weiwei. Yiwu Weiwei is our customer and is engaged in businesses which is in the downstream chain of our Group's business, but not in competition with our business. Mr. Yu Afu has no interest in any other business which is in direct or indirect competition with us.

None of the Controlling Shareholders and their respective Associates is interested in any business which competes or is likely to compete, directly or indirectly with our business.

Each of the Controlling Shareholders has under the Deed of Non-competition undertaken and covenanted with our Company (for itself and as trustee for its subsidiaries) that for so long as it/he and/or its/his Associates, directly or indirectly, whether individually or taken together, remain as our Controlling Shareholders:

- (i) he/it will not, and will procure his/its Associates not to (other than through our Group or in respect of each covenantor (together with his/its Associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognized stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by our Group from time to time (the "**Restricted Activity**"), except where our Company's approval as mentioned in the paragraph below is obtained.

The Controlling Shareholders and their respective Associates are entitled to engage or have an interest in any Restricted Activity if our Company has confirmed in writing (the "**Approval Notice**") that none of our Group members wishes to be engaged or interested in the relevant Restricted Activity and it has approved the relevant Controlling Shareholders and their respective Associates to engage or have any interest in the Restricted Activity. Any Director who is interested in the relevant Restricted Activity shall not vote on relevant resolutions approving the Approval Notice.

- (ii) if any of the Controlling Shareholders and/or his/its Associates decide to invest, be engaged, or participate in any Restricted Activity, whether directly or indirectly, in compliance with the Deed of Non-competition, he/it will and/or will procure his/its Associates (other than members of our Group) to disclose the terms of such investment, engagement or participation to our Company and the Directors as soon as practicable and use his/its reasonable endeavors to procure that such investment, engagement or participation is offered to our Company on terms no less favorable than the terms on which such investment, engagement or participation is offered to him/it and/or his/its Associates.

Mr. Yu further undertakes to procure Mr. Yu Afu and Yiwu Weiwei not to market or distribute products that are in direct or indirect competition with our products both in the PRC and overseas.

The Deed of Non-Competition and the rights and obligations thereunder are conditional and will take effect immediately upon Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The obligations of the Controlling Shareholders under the Deed of Non-Competition will remain in effect until:

- (a) the date on which the Shares cease to be listed on the Stock Exchange; or
- (b) the Controlling Shareholders and their respective Associates, individually and/or collectively, cease to be deemed as our Controlling Shareholder (within the meaning defined in the Listing Rules from time to time); or
- (c) the Controlling Shareholders and their respective Associates, individually and/or collectively, beneficially own or are interested in our entire issued share capital.

whichever occurs first.

The Controlling Shareholders, jointly and severally, undertake to our Group that the Controlling Shareholders shall, during the term of the Deed of Non-Competition, indemnify and keep indemnified the Group against any loss suffered by us arising out of any breach of any of our Controlling Shareholders' undertakings or terms under the Deed of Non-Competition.

Corporate governance measures

The following corporate governance measures will be adopted to monitor the compliance of the Deed of Non-Competition:

- (a) Each of the Controlling Shareholders acknowledged and agreed that our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-Competition by the Controlling Shareholders and their respective Associates on their existing or future competing businesses.
- (b) The Controlling Shareholders shall promptly provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition and provide to our Company a written confirmation relating to the compliance of the Deed of Non-Competition and make an annual declaration on compliance with the Deed of Non-Competition in our annual report.
- (c) We shall disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the undertakings and first right of refusal provided by the Controlling Shareholders either through the corporate governance report as set out in our annual report, or by way of announcements to the public.
- (d) Further, the Controlling Shareholders shall abstain from voting at any of the Company's general meeting if there is any actual or potential conflict of interests. The conflicted Directors shall absent themselves from the meetings and voting of the Board when matters in which such Director or his/its Associates have a material interest are discussed (including first rights of refusal), unless expressly requested to attend by a majority of our independent non-executive Directors.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (e) Our compliance advisor shall provide us with professional advice on compliance of continuing obligations under the Listing Rules.

DEED OF INDEMNITY

Pursuant to a deed of indemnity entered into between the Controlling Shareholders and the Company (for itself and as trustee for its subsidiaries), certain indemnities have been given in favour of the Group. For further details, please refer to the paragraph headed “Other Information — Tax and other indemnities” in Appendix V of this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Long position in Shares

Name	Capacity	Number of Shares	Approximate percentage of interests
Ludao Investments <i>(note 1)</i>	Beneficial owner	270,300,000 Shares	67.575%
Mr. Yu <i>(note 1)</i>	Interest in controlled corporation	270,300,000 Shares	67.575%
Neland <i>(note 2)</i>	Beneficial owner	29,700,000 Shares	7.425%
China Flavors <i>(note 2)</i>	Interest in controlled corporation	29,700,000 Shares	7.425%
Creative China Limited <i>(note 2)</i>	Interest in controlled corporation	29,700,000 Shares	7.425%
Mr. Wang Ming Fan <i>(note 2)</i>	Interest in controlled corporation	29,700,000 Shares	7.425%

Notes:

- Ludao Investments is beneficially owned as to 100% by Mr. Yu. Accordingly, Mr. Yu is deemed to be interested in the Shares held by Ludao Investments under the SFO.
- Neland is beneficially owned as to 100% by China Flavors, which is in turn owned as to 51.62% by Creative China Limited. Mr. Wang Ming Fan is interested in 41.19% of the issued capital of Creative China Limited. Accordingly, each of China Flavors, Creative China Limited and Mr. Wang Ming Fan is deemed to be interested in the Shares held by Neland under the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of our share capital in issue and to be issued as fully paid or credited as fully paid immediately following the Share Offer and the Capitalisation Issue:

	HK\$
<i>Authorized share capital:</i>	
<u>2,000,000,000</u> Shares of HK\$0.01 each	<u>20,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid (assuming that the Offer Size Adjustment Option is not exercised):</i>	
10,000 Shares in issue at the date of this prospectus	100
299,990,000 Shares to be issued pursuant to the Capitalisation Issue	2,999,900
<u>100,000,000</u> Shares to be issued pursuant to the Share Offer (<i>Note 1</i>)	<u>1,000,000</u>
<u>400,000,000</u> Shares in total	<u>4,000,000</u>

Note:

- (1) If the Offer Size Adjustment Option is exercised in full, 15,000,000 additional Shares will be issued resulting in a total issued shares of 415,000,000 Shares.

Assumptions

The above table assumes that the Share Offer and the Capitalisation Issue become unconditional. The table takes no account of Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and Repurchase Mandate as described below.

Minimum Public Float

The minimum level of public float to be maintained by our Company at all times after the Listing under the Listing Rules is 25% of its share capital in issue from time to time.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus other than participation under the Capitalisation Issue.

SHARE CAPITAL

Share Option Scheme

We have conditionally adopted the Share Option Scheme, the principal terms of which are summarized in the paragraph headed “Share Option Scheme” in Appendix V of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate (the “**Issuing Mandate**”) to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding 20% of the aggregate of the total nominal amount of our share capital in issue as enlarged by the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme); and the aggregate nominal value of our share capital repurchased by our Company (if any) pursuant to the Repurchase Mandate (as defined below).

This Issuing Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company’s next annual general meeting is required to be held by any applicable laws or its Article of Association; or
- (iii) when varied or revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further details of this Issuing Mandate, please refer to paragraph headed “Further Information about the Company — Written resolutions of the Shareholders” in Appendix V of this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate (the “**Repurchase Mandate**”) to exercise all our powers to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of our share capital in issue, as enlarged by the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme).

SHARE CAPITAL

This Repurchase Mandate will expire:

- (i) at the conclusion of our Company's next annual general meeting; or
- (ii) upon the expiry of the period within which our Company's next annual general meeting is required to be held by any applicable laws or its Articles of Association; or
- (iii) when varied or revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

whichever occurs first.

For further information about this Repurchase Mandate, please refer to the paragraph headed "Further Information about the Company — Written resolutions of the Shareholders" of Appendix V of this prospectus.

FINANCIAL INFORMATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our combined financial information as of and for the three years ended 31 December 2010, 2011 and 2012 and for the three months ended 31 March 2013 with the accompanying notes thereto, which is set forth in the Accountant's Report as included in Appendix I to this prospectus. Our combined financial information has been prepared in accordance with HKFRS.

In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties. Our future financial condition may differ from those discussed in these forward-looking statements as a result of various factors, including but not limited to, those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a leading manufacturer of aerosol products in the PRC. We are among top 5 of the largest aerosol products in the PRC based on production volume according to CRI, especially in the supply of aerosol products. We are primarily engaged in the manufacture of aerosol products for our CMS customers and in the design and manufacture of aerosol products under our own brands of "Green Island", "Ludao" ("綠島"), "JIERJIA" ("吉爾佳") and "EAGLEIN KING" ("鷹王").

We began our business as a CMS enterprise in 2002 and over the years, our CMS business has been well developed. Revenue generated from our CMS business was approximately RMB138.69 million, RMB196.04 million, RMB190.64 million and RMB44.60 million, representing approximately 91.13%, 92.18%, 83.30% and 82.07% of our total revenue for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013. According to the CRI Report, we were one of the largest exporters of aerosol products in the PRC in 2010, 2011 and 2012 in terms of production volume.

In addition to the CMS business, in 2010, we began to place more emphasis on developing OBM business, based on our belief that the domestic demand in China has a greater growth potential. We first launched the "Green Island", "Ludao" ("綠島") series products in 2008. We subsequently launched "JIERJIA" ("吉爾佳") and "EAGLEIN KING" ("鷹王") series products in 2011.

We developed these brands with a view to establishing broad market coverage and catering for the growing demand for aerosol products in the PRC. Sales of our OBM products grew significantly from approximately RMB13.50 million in 2010 to approximately RMB38.21 million in 2012, representing a CAGR of approximately 68.22%.

During the Track Record Period, we experienced a remarkable growth in revenue, due to both our success in CMS business and our OBM products. Our total revenue for the three years ended 31 December 2010, 2011 and 2012 was approximately RMB152.19 million, RMB212.68 million and RMB228.85 million respectively. The CAGR for revenue from 2010 to 2012 was approximately

FINANCIAL INFORMATION

22.63%. Our net profit for the three years ended 31 December 2010, 2011 and 2012 was approximately RMB16.01 million, RMB22.51 million and RMB23.81 million respectively. The CAGR for net profit from 2010 to 2012 was approximately 21.95%.

Our total revenue for the three months ended 31 March 2012 and 2013 was approximately RMB45.39 million and RMB54.34 million respectively. It represented an increase of approximately 19.72%. Our net profit for the three months ended 31 March 2012 and 2013 was approximately RMB2.65 million and RMB4.35 million respectively. It represented an increase of approximately 64.15%.

BASIS OF PREPARATION

Our financial information set out in the Accountant's Report in Appendix I to this prospectus has been prepared in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA, the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The combined income statements, statements of comprehensive income, statement of changes in equity and statements of cash flows for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 include the results, changes in equity and cash flows of all companies comprising us as if the current group structure had been in existence since 1 January 2010, or since the respective dates of incorporation or establishment of the companies now comprising us, whichever is later.

All intra-group transactions and balances have been eliminated on consolidation.

The Accountant's Report discloses segment information by geographical locations. The Directors believe that it is more meaningful for investors and for better understanding of our business through disclosing product categories by geographical segment. In fact, CMS sales as disclosed in this prospectus is corresponding to the total sales of United States of America, Europe and others as set out in the segment information of the Accountant's Report.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including the factors discussed below, some of which are beyond our control.

Economic conditions

The economic conditions in the PRC and in our export destinations abroad which mainly consist of United States of America and Europe, may have a significant effect on our financial condition and results of operations. A majority of our sales are made to overseas customers and an increasing portion of domestic sales are in the PRC. Economic conditions in these regions, including levels of consumer spending and disposable income, affect our customers' production volumes and, in turn, the demand of aerosol products. Therefore, any change in economic conditions in these regions may affect our financial condition and results of operations.

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The world economy has gradually recovered from the financial crisis in 2008. According to CNBS, the Consumer Confidence Index (CCI) in China had increased from 88.7 for the year ended 31 December 2008 to 103.7 for the year ended 31 December 2012 according to CNBS, which confirmed the steady growth in household consumption. Whereas we are increasing our sales effort in the PRC, this trend of world economy may have a positive effect in our financial information.

According to the CNBS, PRC economy has grown rapidly in recent year, per capita annual disposable income of urban households in the PRC increased from approximately RMB19,109 in 2010 to approximately RMB24,565 in 2012, representing a CAGR of approximately 13.38%. Further, according to the CNBS, the total value of retail sales of PRC consumer goods grew at a CAGR of approximately 15.78% from approximately RMB15,455 billion for the year ended 31 December 2010 to approximately RMB20,717 billion for the year ended 31 December 2012. In light of the planned expansion of our OBM business which targets the PRC aerosol products market, the increase in purchasing power in the PRC is expected to fuel the demand for aerosol products and may positively affect our results of operations. However, we cannot be certain that any downturn in the future would not have a negative impact on our results of operations.

Sales network and distributors

Our existing sales network covers a major portion of PRC market. As at the Latest Practicable Date, we maintained 304 Distributors across 29 provinces, autonomous regions and municipalities in China. In our planned expansion of our OBM business, we work closely with Distributors so as to capture the growth in demand for our OBM aerosol products in the PRC. We intend to extend our geographical coverage over China and increase market penetration in our existing markets by encouraging and facilitating our Distributors in product promotion activities.

During the Track Record Period, we did not own or operate any points of sale ourselves. We rely on our Distributors to distribute our OBM products across various provinces of the PRC. Each of our Distributors are responsible for establishing sales network in their respective designated districts. There is no assurance that we will be able to attract a sufficient number of quality Distributors to maintain or expand our geographical coverage. We also cannot assure that our Distributors have or will have sufficient resources to deal with unexpected changes in the regulatory, economic or business environment or other factors beyond their control. If they are unable to meet their annual sales targets, we may not be able to develop our OBM business profitably or as we plan.

Our products

CMS

We sell a wide range of CMS products and our Directors believe that our results of operations, particularly our gross profit margin, are affected by changes in our product mix, as well as product types since different product types have different levels of demand and selling prices.

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OBM

We sell OBM products to Distributors and do provide suggested retail prices for our OBM products which may be adjusted by our Distributors according to market conditions. As such, the selling prices we offer to our Distributors for our products must match with our Distributors' expectations of the retail price of our OBM products to consumers. The brand power of our OBM products is an important factor that we take into consideration in determining their suggested retail prices of our OBM products. Our ability to continue to price our OBM products at current level may have impact on our financial performance.

We determine the selling price of our OBM products based on the various factors such as internal and subcontracting costs, general economic conditions and the brand recognition.

Cost of raw materials

Raw materials compose of aerosol cans, direct materials and packaging materials which makes up the largest portion of our cost of production, therefore, the cost of raw materials directly affect our results of operations and financial performance.

Aerosol can is the largest raw material component in our aerosol products, representing approximately 60.66%, 56.97%, 53.45% and 44.79% of our cost of sales for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively. However, the price of aerosol can is subject to the supply of tin which may vary every quarter. As we negotiate price with our suppliers every quarter, we are subject to price fluctuations.

We maintain good relationship with high quality suppliers of raw materials which are all located in the PRC. As raw materials are the largest portion of our cost of sales, representing approximately 94.13%, 93.83%, 93.92% and 93.02% of our cost of sales for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively, any significant raw material price fluctuations that we may experience, particularly with respect to aerosol cans, may have a negative impact on our operations and financial performance in the event that we are unable to pass on raw material price increases to our customers.

Level of income tax and preferential tax treatment

Our profit attributable to equity holders is affected by the level of income tax that we pay and the preferential tax treatment to which we are entitled to. Our operating subsidiary, Ludao (PRC), qualified as a High and New Technology Enterprise, was entitled to the preferential tax rate of 15% for the three years ended 31 December 2010, 2011 and 2012. Upon the expiration of preferential tax treatment we may be subject to income tax rate of 25%, which may adversely affect our business and results of operation.

Listing expenses

The expenses incurred for listing includes professional fee paid to the Sponsor, financial adviser, legal advisers, reporting accountant and auditor, valuer and other parties involved in the Listing. The listing expenses incurred in 2012 amounted to approximately RMB6.47 million. The listing expenses to be charged in 2013 are estimated to be approximately RMB4.37 million.

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Exchange rate fluctuations

Our sales are mainly denominated in U.S. dollars and RMB. Our cost of sales and operating expenses are mainly denominated in RMB. Approximately 91.13%, 92.18%, 83.30% and 82.07% for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively, was derived from our overseas sales which were mainly denominated in U.S. dollars. On average, the RMB appreciated approximately 1.07%, 4.86%, 1.93% and 0.33% against the U.S. dollars for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively. Our profit margins will be adversely affected to the extent that we are unable to increase the selling prices of the products denominated in U.S. dollars to offset the appreciation of RMB against U.S. dollars.

Sensitivity Analysis

Assuming all other factors were to remain unchanged, the following sensitivity analysis illustrates the impact of hypothetical fluctuations (i.e. the maximum range of percentage during the Track Record Period) in the (i) exchange rate (RMB against US\$); (ii) labour cost; and (iii) price of aerosol can; and (iv) price of butane gas on our net profit for the three years ended 31 December 2010, 2011 and 2012.

Hypothetical fluctuations (RMB'000)

(i) Change in exchange rate (RMB against US\$)	-6.0%	-4.0%	-2.0%	+2.0%	+4.0%	+6.0%
For the year ended 31 December 2010	1,634	1,090	545	(545)	(1,090)	(1,634)
For the year ended 31 December 2011	1,744	1,163	581	(581)	(1,163)	(1,744)
For the year ended 31 December 2012	1,448	965	483	(483)	(965)	(1,448)
(ii) Change in labour cost	-15.0%	-10.0%	-5.0%	+5.0%	+10.0%	+15.0%
For the year ended 31 December 2010	695	464	232	(232)	(464)	(695)
For the year ended 31 December 2011	1,082	722	361	(361)	(722)	(1,082)
For the year ended 31 December 2012	1,654	1,102	551	(551)	(1,102)	(1,654)
(iii) Change in price of aerosol can	-7.5%	-5.0%	-2.5%	+2.5%	+5.0%	+7.5%
For the year ended 31 December 2010	4,504	3,003	1,501	(1,501)	(3,003)	(4,504)
For the year ended 31 December 2011	5,930	3,954	1,977	(1,977)	(3,954)	(5,930)
For the year ended 31 December 2012	5,914	3,943	1,971	(1,971)	(3,943)	(5,914)
(iv) Change in price of butane gas	-12.0%	-8.0%	-4.0%	+4.0%	+8.0%	+12.0%
For the year ended 31 December 2010	1,044	696	348	(348)	(696)	(1,044)
For the year ended 31 December 2011	1,563	1,042	521	(521)	(1,042)	(1,563)
For the year ended 31 December 2012	1,580	1,053	527	(527)	(1,053)	(1,580)

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	<u>Maximum positive impact</u>	<u>Maximum negative impact</u>
(v) Aggregate effect of (i), (ii), (iii) and (iv)		
For the year ended 31 December 2010	7,877	(7,877)
For the year ended 31 December 2011	10,319	(10,319)
For the year ended 31 December 2012	10,596	(10,596)

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial position and results of operations as included in this prospectus is based on the consolidated financial statements prepared in conformity with HKFRS. The critical accounting estimates and judgements that we use in applying our accounting policies are set out in Note 4 to the Accountant's Report set out in Appendix I to this prospectus. Such estimates and judgements are made based on historical experience and other factors, including rules and regulations, prevailing market conditions and expectations of future events that are believed to be reasonable under the circumstances, and are reviewed on a continual basis. Actual results may differ under different assumptions or conditions.

Below is a summary of certain significant accounting policies, which are applied consistently to all periods presented in the financial information that we believe are important to the presentation of our financial results and positions. We also have other accounting policies that we consider to be significant, the details of which are set forth in Note 2 to the Accountant's Report set out in Appendix I to this prospectus.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our business activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sale within our Group.

We recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of our activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

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(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

Property, plant and equipment and depreciation

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and stated at cost. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Depreciation is not provided on construction in progress until the related asset is completed for intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the combined income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Plant and equipment	10–15 years
Office furniture and equipment	3–5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each financial period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within "Other income and other gains/(losses) — net" in the combined income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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RESULTS OF OPERATIONS

Combined income statements

The combined income statements presented for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 are derived from our combined financial information included in the Accountant's Report set out in Appendix I to this prospectus.

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue	152,189	100.00%	212,676	100.00%	228,852	100.00%	45,392	100.00%	54,343	100.00%
Cost of sales	(116,479)	76.54%	(163,292)	76.78%	(173,574)	75.85%	(35,410)	78.01%	(41,614)	76.58%
Gross profit	35,710	23.46%	49,384	23.22%	55,278	24.15%	9,982	21.99%	12,729	23.42%
Other income and gains/(losses) — net	(379)	0.25%	(365)	0.17%	5,110	2.23%	(4)	0.01%	(272)	0.50%
Selling expenses	(6,889)	4.53%	(8,042)	3.78%	(9,967)	4.36%	(2,014)	4.44%	(2,781)	5.12%
Administrative expenses	(10,529)	6.92%	(14,913)	7.01%	(22,980)	10.04%	(4,647)	10.24%	(4,602)	8.47%
Operating profit	17,913	11.77%	26,064	12.26%	27,441	11.99%	3,317	7.31%	5,074	9.34%
Finance income	998	0.66%	462	0.22%	877	0.38%	256	0.56%	175	0.32%
Finance costs	(20)	0.01%	—	—	(21)	0.01%	(21)	0.05%	—	—
Finance income — net	978	0.64%	462	0.22%	856	0.37%	235	0.52%	175	0.32%
Profit before income tax	18,891	12.41%	26,526	12.47%	28,297	12.36%	3,552	7.83%	5,249	9.66%
Income tax expense	(2,881)	1.89%	(4,014)	1.89%	(4,485)	1.96%	(902)	1.99%	(899)	1.65%
Profit for the year/period attributable to owners of the Company	16,010	10.52%	22,512	10.59%	23,812	10.40%	2,650	5.84%	4,350	8.00%
Dividends	—	—	—	—	—	—	—	—	—	—
Profit for the year/period	16,010	10.52%	22,512	10.59%	23,812	10.40%	2,650	5.84%	4,350	8.00%
Exchange difference arising on translating foreign operations	336	0.22%	479	0.23%	79	0.03%	6	0.01%	80	0.15%
Total comprehensive income for the year/period attributable to owners of the Company	16,346	10.74%	22,991	10.81%	23,891	10.44%	2,656	5.85%	4,430	8.15%

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CERTAIN INCOME STATEMENT ITEMS

Revenue

We generate revenue from the manufacture and sale of aerosol and non-aerosol products, which can be classified into four categories, namely (i) household and auto care products, (ii) air-fresheners, (iii) personal care products, and (iv) insecticides.

Revenue by product segment

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
							(Unaudited)			
CMS										
Household and auto care products	96,824	63.62%	121,250	57.01%	103,277	45.13%	21,717	47.85%	23,373	43.01%
Air-fresheners	24,933	16.38%	49,425	23.24%	57,342	25.05%	10,378	22.86%	12,840	23.63%
Personal care products	16,370	10.76%	22,614	10.63%	26,564	11.61%	3,465	7.63%	6,026	11.09%
Insecticides	559	0.37%	2,755	1.30%	3,457	1.51%	1,174	2.59%	2,360	4.34%
Sub-total	138,686	91.13%	196,044	92.18%	190,640	83.30%	36,734	80.93%	44,599	82.07%
OBM										
Household and auto care products	433	0.28%	346	0.16%	6,842	2.99%	68	0.15%	2,372	4.37%
Air-fresheners	8,501	5.59%	12,799	6.02%	19,881	8.69%	5,010	11.04%	3,339	6.14%
Personal care products	261	0.17%	264	0.12%	1,019	0.44%	61	0.13%	192	0.35%
Insecticides	4,308	2.83%	3,223	1.52%	10,470	4.58%	3,519	7.75%	3,841	7.07%
Sub-total	13,503	8.87%	16,632	7.82%	38,212	16.70%	8,658	19.07%	9,744	17.93%
Total Sales	152,189	100.00%	212,676	100.00%	228,852	100.00%	45,392	100.00%	54,343	100.00%

During the Track Record Period, our revenue was mainly derived from the sales of CMS products, representing approximately 83.30% and 82.07% of total revenue for the year ended 31 December 2012 and for the three months ended 31 March 2013, in which household and auto care products remained the major revenue contributor to the CMS products, representing approximately 45.13% and 43.01% of total revenue for the year ended 31 December 2012 and for the three months ended 31 March 2013. For the year ended 31 December 2012 and for the three months ended 31 March 2013, OBM revenue represented approximately 16.70% and 17.93% of total revenue. The change in percentage of revenue from approximately 7.82% for the year ended 31 December 2011 as compared to approximately 16.70% for the year ended 31 December 2012 and approximately 17.93% for the three months ended 31 March 2013 was mainly due to the expansion of domestic sales by our Group, given the increased revenue from the sales of all OBM products.

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Revenue by geographical area

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
United States of America										
Household and auto care products	90,322	59.35%	113,971	53.59%	89,577	39.14%	17,607	38.79%	17,841	32.83%
Air-fresheners	19,578	12.86%	35,098	16.50%	42,476	18.56%	9,690	21.35%	10,782	19.84%
Personal care products	14,988	9.85%	20,743	9.76%	17,972	7.85%	2,759	6.08%	5,405	9.95%
Insecticides	—	—	—	—	129	0.06%	84	0.18%	1,902	3.50%
Sub-total	124,888	82.06%	169,812	79.85%	150,154	65.61%	30,140	66.40%	35,930	66.12%
PRC										
Household and auto care products	433	0.28%	346	0.16%	6,842	2.99%	68	0.15%	2,372	4.37%
Air-fresheners	8,501	5.59%	12,799	6.02%	19,881	8.69%	5,010	11.04%	3,339	6.14%
Personal care products	261	0.17%	264	0.12%	1,019	0.44%	61	0.13%	192	0.35%
Insecticides	4,308	2.83%	3,223	1.52%	10,470	4.58%	3,519	7.75%	3,841	7.07%
Sub-total	13,503	8.87%	16,632	7.82%	38,212	16.70%	8,658	19.07%	9,744	17.93%
Europe										
Household and auto care products	1,433	0.94%	1,346	0.63%	6,853	2.99%	2,041	4.50%	4,610	8.48%
Air-fresheners	4,526	2.98%	5,742	2.70%	7,461	3.26%	457	1.01%	82	0.15%
Personal care products	261	0.17%	264	0.12%	4,387	1.92%	143	0.31%	177	0.33%
Insecticides	319	0.21%	2,223	1.05%	—	—	—	—	—	—
Sub-total	6,539	4.30%	9,575	4.50%	18,701	8.17%	2,641	5.82%	4,869	8.96%
Other										
Household and auto care products	5,069	3.33%	5,933	2.79%	6,847	2.99%	2,069	4.56%	922	1.70%
Air-fresheners	829	0.54%	8,585	4.04%	7,405	3.24%	231	0.51%	1,976	3.63%
Personal care products	1,121	0.74%	1,607	0.76%	4,205	1.84%	563	1.24%	444	0.82%
Insecticides	240	0.16%	532	0.24%	3,328	1.45%	1,090	2.40%	458	0.84%
Sub-total	7,259	4.77%	16,657	7.83%	21,785	9.52%	3,953	8.71%	3,800	6.99%
Total Sales	152,189	100.00%	212,676	100.00%	228,852	100.00%	45,392	100.00%	54,343	100.00%

As shown in the above analysis, revenue from United States of America market formed the major source of our revenue, accounted for approximately 82.06%, 79.85%, 65.61% and 66.12% of our total revenue for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013.

In view of the potential of the PRC market in which its revenue contribution has been gradually increased during the Track Record Period, we will put more emphasis on the development of the PRC market in future.

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Major customers

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fayeshine	115,282	115,988	75,493	947	27,183
Ningbo Hiking					
— to Fayeshine	—	40,385	46,864	24,506	—
— to other customers	116	6,502	14,751	7,685	—
	116	46,887	61,615	32,191	—
Direct and indirect sales to					
Fayeshine	115,282	156,373	122,357	25,453	27,183
Yiwu Weiwei	3,822	6,223	15,221	7,124	195

Ningbo Hiking is an export agent company in China, which started cooperation with us before 2009 due to the fact that we had limited export right before early 2009. Most of the customers of Ningbo Hiking were export and trading companies, representing approximately 100.00%, 13.87%, and 23.94% of our sales to Ningbo Hiking for the three years ended 31 December 2010, 2011 and 2012 respectively, while the remaining revenue was contributed by the sales to Fayeshine. During the Track Record Period, we directly exported to Fayeshine or through Ningbo Hiking to Fayeshine.

In 2010 and 2011, we, through Ludao (PRC), a wholly foreign owned company exported our products to the overseas customers directly through the establishment of a custom department (單證部) to deal with export and custom-related matters with the Commodity Inspection Department (商檢部門) which is required by the PRC import export regulations (海關進出口法規). Our custom department was set up in early 2009.

However, with two of the three staff members in the custom department of Ludao (PRC) resigned due to personal reasons, we experienced shortage in manpower to handle customs-related matters for export of its products to overseas purchasers at that time. In view of the above and continuous orders placed by Fayeshine, we increased our sales to Ningbo Hiking which handled customs matters and resold our products to the overseas purchasers, mainly Fayeshine. As such, revenue generated from the sales to Ningbo Hiking increased from approximately RMB0.12 million in 2010 to approximately RMB46.89 million in 2011.

Our Group's sales to other overseas customers were not affected by the resignation of staff in our customs department in 2011 as the sales to other overseas customers increased from approximately RMB23.40 million, representing approximately 16.88% of total CMS sales in 2010 to approximately RMB39.67 million, representing approximately 20.24% of total CMS sales in 2011. As such, no

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significant impact on our business and financial position as a result of the resignation of the custom staff in 2011 has been identified given that the export services were taken up by Ningbo Hiking during the same period.

We have tried our best endeavor to employ employees to replace the resigned staff members in the customs department. However, given that Sanmen county, where we are located, is a suburban area and we have to take more time and effort to hire sufficient number of employees who are capable to take up the responsibilities. As such, we asked Ningbo Hiking to take up the export services for us in the second half of 2011 in order to resolve the shortage of staff in its customs department on a temporary basis.

In May 2012, we hired two new employees for its customs department. Together with the two existing employees, we have four employees in total in the customs department, which we consider adequate to handle export and customs-related matters on our own based on the expected overseas sales volume. We do not expect to continue to sell its products to Fayeshine via Ningbo Hiking in the future. There are no other reasons which prohibit us from selling to Fayeshine directly.

To the best knowledge of our Directors, there is no relationship between Fayeshine and Ningbo Hiking other than the sale and purchase of our products.

Yiwu Weiwei was our largest OBM customer during the three years ended 31 December 2010, 2011 and 2012. The total revenue had been increasing gradually during the three years ended 31 December 2010, 2011 and 2012 which was mainly due to the expansion of our OBM business as part of our business strategy.

Cost of sales

Our cost of sales consists of raw material costs, manufacturing overhead and others. Our raw material costs include our costs for purchasing aerosol cans, and other materials such as butane gas. Our overhead costs consist of manufacturing costs directly related to our production activities such as labour costs and depreciation.

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Raw material cost	109,647	72.05%	153,209	72.04%	163,029	71.24%	32,700	72.04%	38,708	71.23%
— Aerosol can	70,651	46.43%	93,024	43.75%	92,773	40.54%	17,691	38.97%	18,639	34.30%
— Direct material cost	29,806	19.58%	47,670	22.41%	56,099	24.51%	12,086	26.63%	15,861	29.19%
— Packaging material	8,852	5.82%	11,960	5.62%	13,685	5.98%	2,903	6.40%	4,087	7.52%
— Other cost	338	0.22%	555	0.26%	472	0.21%	20	0.04%	121	0.22%
Manufacturing overhead	6,086	4.00%	9,456	4.45%	9,712	4.24%	2,372	5.23%	2,397	4.41%
— Direct labour cost	3,093	2.03%	5,168	2.43%	5,529	2.42%	1,282	2.82%	1,355	2.49%
Others	746	0.49%	627	0.29%	833	0.37%	338	0.74%	509	0.94%
Total cost of sales	<u>116,479</u>	<u>76.54%</u>	<u>163,292</u>	<u>76.78%</u>	<u>173,574</u>	<u>75.85%</u>	<u>35,410</u>	<u>78.01%</u>	<u>41,614</u>	<u>76.58%</u>

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For the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013, our cost of sales were approximately RMB116.48 million, RMB163.29 million, RMB173.57 million and RMB41.61 million respectively.

Aerosol cans are the major raw materials used by our Group which represented approximately RMB70.65 million, RMB93.02 million and RMB92.77 million for the three years ended 31 December 2010, 2011 and 2012, representing approximately 46.42%, 43.74% and 40.54% of total revenue respectively. In 2011, the decrease in the percentage to total revenue was primarily due to the decrease in average purchasing price for aerosol cans as we increased our purchases from our major aerosol can suppliers. Since aerosol cans are mainly made of tin, the price of tin had slightly decreased by approximately 5% in 2012 as compare to that of 2011, as such the cost of aerosol cans had decreased in 2012.

Direct materials comprise of butane gas, flavors and fragrances, polypropylene, polyethylene and alcohol which represented approximately RMB29.81 million, RMB47.67 million and RMB56.10 million for the three years ended 31 December 2010, 2011 and 2012, representing approximately 19.58%, 22.41% and 24.51% of the total revenue respectively. The increase in the percentage to total revenue was primarily due to the increasing market price of chemical materials, in particular the average cost of butane gas increased by approximately 10% from RMB6,000 per tonne in 2010 to RMB6,600 per tonne in 2012 due to increasing market demand.

The cost of packaging was approximately RMB8.85 million, RMB11.96 million and RMB13.69 million for the three years ended 31 December 2010, 2011 and 2012, representing approximately 5.82%, 5.62% and 5.98% of the total revenue respectively. The slight increase in the percentage to the total revenue in 2012 as compared to 2010 and 2011 was primarily due to the increase in market price of cardboard boxes in which the average cost of a cardboard box was purchased, which had increased by approximately 8% from approximately RMB1.30 per unit in 2010 to approximately RMB1.40 per unit in 2012 respectively.

For the three months ended 31 March 2013, the raw material cost of aerosol cans as a percentage of revenue had decreased as compared to the same period as that of 2012. The decrease in percentage is primarily due to the increase in sales of non-aerosol products where aerosol cans is not required as part of the raw material. Non-aerosol products as a percentage of total sales increased from approximately 4.93% for the three months ended 31 March 2012 to approximately 14.33% for the three months ended 31 March 2013.

The cost of direct material and packaging material had increased as a percentage of revenue due to the increase in the sales of non-aerosol products for the three months ended 31 March 2013. In particular the costs of direct material for liquid laundry detergents are more costly than that of aerosol products. The average cost of production for liquid laundry detergents are approximately RMB10.96 per unit while the average cost of aerosol household and auto care products are approximately RMB3.38 per unit for the three months ended 31 March 2013. As such, there was a significant increase in direct material and packaging material cost for the three months ended 31 March 2013.

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Gross profit and gross profit margin

The overall gross profit margin was approximately 23.46%, 23.22%, 24.15% and 23.42% for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013. The following table sets out the breakdown of our Group's gross profit and gross profit margin of CMS products for the periods indicated:

CMS products

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Household and auto										
care products	24,302	25.10%	31,531	26.01%	24,114	23.35%	4,124	18.99%	4,652	19.90%
Air-fresheners	3,509	14.07%	8,274	16.74%	11,004	19.19%	1,829	17.62%	2,390	18.61%
Personal care										
products	4,123	25.19%	4,491	19.86%	7,879	29.66%	746	21.53%	1,711	28.39%
Insecticides	258	46.15%	945	34.30%	1,232	35.64%	426	36.29%	1,245	52.75%
Gross profit/gross										
profit margin	<u>32,192</u>	<u>23.21%</u>	<u>45,241</u>	<u>23.08%</u>	<u>44,229</u>	<u>23.20%</u>	<u>7,125</u>	<u>19.40%</u>	<u>9,998</u>	<u>22.42%</u>

The gross profit of CMS products was approximately 23.21%, 23.08%, 23.20% and 22.42% for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively. The slight fluctuation of our Group's gross profit margin of CMS products during the Track Record Period was mainly due to the following reasons:

Household and auto care products

The gross profit margin of household and auto care products increased from approximately 25.10% for the year ended 31 December 2010 to approximately 26.01% for the year ended 31 December 2011. Such increase was due to the aggregate impact of (i) the increase of the average selling price from approximately RMB2.46 per can for the year ended 31 December 2010 to approximately RMB2.60 per can for the year ended 31 December 2011 as a result of the increase in selling price to US Company B; and (ii) the increase of the average cost of sales from approximately RMB1.85 per can for the year ended 31 December 2010 to approximately RMB1.92 per can for the year ended 31 December 2011 as a result of the increase cost of butane gas. The increase in selling price per can was due to the increase of market recognition of our CMS products and the increase in cost of sales per can was due to the general increase in the price of raw materials.

The gross profit margin of household and auto care products decreased from approximately 26.01% for the year ended 31 December 2011 to approximately 23.35% for the year ended 31 December 2012. Such decrease was mainly due to the increase of the average cost of sales from

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approximately RMB1.92 per can for the year ended 31 December 2011 to approximately RMB1.99 per can for the year ended 31 December 2012 due to the fact that the cost of direct material, such as butane gas and flavour, and packaging material has increased materially in 2012.

The gross profit margin of household and auto care products slightly increased from approximately 18.99% for the three months ended 31 March 2012 to approximately 19.90% for the three months ended 31 March 2013. Such increase was due to the increase of the average selling price from approximately RMB2.41 per can for the three months ended 31 March 2012 to approximately RMB2.70 per can for the three months ended 31 March 2013 as a result of the increase in selling price to US Company B.

Air-fresheners

The gross profit margin of air fresheners increased from approximately 14.07% for the year ended 31 December 2010 to approximately 16.74% for the year ended 31 December 2011. Such increase was due to the increase of the average selling price from approximately RMB2.50 per can for the year ended 31 December 2010 to approximately RMB2.60 per can for the year ended 31 December 2011 as a result of the increase in selling price to US Company B.

The gross profit margin of air fresheners increased from approximately 16.74% for the year ended 31 December 2011 to approximately 19.19% for the year ended 31 December 2012. Such increase was due to the increase of the average selling price from approximately RMB2.60 per can for the year ended 31 December 2011 to approximately RMB2.66 per can for the year ended 31 December 2012 as a result of the increase in the selling price to US Company B.

The gross profit margin of air fresheners slightly increased from approximately 17.62% for the three months ended 31 March 2012 to approximately 18.61% for the three months ended 31 March 2013. Such increase was due to the increase of the average selling price from approximately RMB2.61 per can for the three months ended 31 March 2012 to approximately RMB2.75 per can for the three months ended 31 March 2013, primarily due to increase in selling price to US Company B as a result of the improving economic condition in the US.

Personal care products

The gross profit margin of personal care products decreased from approximately 25.19% for the year ended 31 December 2010 to approximately 19.86% for the year ended 31 December 2011. Such decrease was due to the impact of the increase of the average cost of sales from approximately RMB1.95 per can for the year ended 31 December 2010 to approximately RMB2.12 per can for the year ended 31 December 2011. The rise in cost of sales was primarily due to the rise in cost of direct material, in particular the cost of butane gas increase by approximately 8% for the year ended 31 December 2011.

The gross profit margin of personal care products increased from approximately 19.86% for the year ended 31 December 2011 to approximately 29.66% for the year ended 31 December 2012. Such increase was due to the increase of the average selling price from approximately RMB2.64

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per can for the year ended 31 December 2011 to approximately RMB2.85 per can for the year ended 31 December 2012 due to the new products development and formulation modified in 2012 relating to hair care products.

The gross profit margin of personal care product increased from approximately 21.53% for the three months ended 31 March 2012 to approximately 28.39% for the three months ended 31 March 2013. Reason for such increase was the same as that of the comparison above for the two years ended 31 December 2011 and 2012 where our Group had new products development and formulation modified in relation to hair care products.

Insecticides

The gross profit margin of insecticides decreased from approximately 46.15% for the year ended 31 December 2010 to approximately 34.30% for the year ended 31 December 2011. Such decrease was due to the aggregate impact of (i) the increase of the average selling price from approximately RMB3.66 per can for the year ended 31 December 2010 to approximately RMB4.32 per can for the year ended 31 December 2011; and (ii) the increase of the average cost of sales from RMB1.97 per can for the year ended 31 December 2010 to approximately RMB2.84 per can for the year ended 31 December 2011. Due to the increase in the cost of direct materials used in the production of insecticides, in particular alcohol, we had revised our selling price in the current year and since the product was well accepted in the previous year, our Group was able to charge a relatively higher price per can.

The gross profit margin of insecticides rose slightly from approximately 34.30% for the year ended 31 December 2011 to approximately 35.64% for the year ended 31 December 2012. There was no material movement in selling price or cost of sales per can for the two years ended 31 December 2011 and 2012.

The gross profit margin of insecticides increased from approximately 36.29% for the three months ended 31 March 2012 to approximately 52.75% for the three months ended 31 March 2013. Such increase was due to the decrease of the average cost of sales from approximately RMB2.75 per can for the three months ended 31 March 2012 to approximately RMB1.94 per can for the three months ended 31 March 2013. The decrease in average cost of sales for the three months ended 31 March 2013 was as a result of our research and development efforts in insecticide formulation. We were able to minimise our cost of production for insecticide while maintaining the same quality and standards.

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The following table sets out the breakdown of our gross profit and gross profit margin of OBM products for the periods indicated:

OBM products

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Household and auto										
care products	200	46.19%	140	40.46%	849	12.41%	27	39.71%	346	14.59%
Air-fresheners	1,842	21.67%	2,768	21.63%	5,841	29.38%	1,286	25.67%	899	26.92%
Personal care										
products	122	46.74%	117	44.32%	355	34.84%	24	39.34%	62	32.29%
Insecticides	1,354	31.43%	1,118	34.69%	4,004	38.25%	1,520	43.19%	1,424	37.07%
Gross profit/gross										
profit margin	<u>3,518</u>	<u>26.05%</u>	<u>4,143</u>	<u>24.91%</u>	<u>11,049</u>	<u>28.92%</u>	<u>2,857</u>	<u>33.00%</u>	<u>2,731</u>	<u>28.03%</u>

The overall gross profit margin for OBM products increased from approximately 26.05% for the year ended 31 December 2010 to approximately 28.92% for the year ended 31 December 2012 despite the fluctuation of gross profit margin of the OBM products during the Track Record Period.

Household and auto care products

The gross profit margin of our household and auto care products decreased from approximately 46.19% for the year ended 31 December 2010 to approximately 40.46% for the year ended 31 December 2011 as a result of adjusting the average selling price from approximately RMB3.52 per can for the year ended 31 December 2010 to approximately RMB2.94 per can for the year ended 31 December 2011. The adjustment of the average selling price for household and auto care products was mainly due to the promotion of household and auto care products in the market in view of the continuous poor performance in 2010.

The gross profit margin of our household and auto care products decreased from approximately 40.46% for the year ended 31 December 2011 to approximately 12.41% for the year ended 31 December 2012. Such decrease was mainly due to the increase of the average cost of sales from approximately RMB1.75 per can for the year ended 31 December 2011 to approximately RMB5.11 per can for the year ended 31 December 2012 as a result of the introduction of household cleaning products to promote the brand and capture relevant market share.

The gross profit margin of our household and auto care products decreased from approximately 39.71% for the three months ended 31 March 2012 to approximately 14.59% for the three months ended 31 March 2013. The reason for such decrease is the same as the above reason for the decrease in gross profit margin in 2012 where we had introduced household cleaning products to promote the brand and capture relevant market share.

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Air-fresheners

The gross profit margin of our air-fresheners was stable at approximately 21.67% and 21.63% for the two years ended 31 December 2010 and 2011. There were no material changes in both the average selling price and average cost of sales.

The gross profit margin of our air-fresheners increased from approximately 21.63% for the year ended 31 December 2011 to approximately 29.38% for the year ended 31 December 2012. Such increase was primarily due to the decrease of the average cost of sales from approximately RMB1.66 per unit for the year ended 31 December 2011 to approximately RMB1.51 per unit for the year ended 31 December 2012 as result of the increase in the economic of scale of production of air-fresheners from approximately 1.27 million cans in 2011 to approximately 1.98 million cans in 2012.

The gross profit margin of air-fresheners increased from approximately 25.67% for the three months ended 31 March 2012 to approximately 26.92% for the three months ended 31 March 2013. There was no material movement in selling price or cost of sales per can for the three months ended 31 March 2012 and 2013.

Personal care products

The gross profit margin of our personal care products decreased from approximately 46.74%, to approximately 44.32% and to approximately 34.84% for the three years ended 31 December 2010, 2011 and 2012 respectively. The decrease in gross profit margin of personal care products was primarily due to the increase in cost of direct material which consisted stearic acid and triethanolamine. The cost of stearic acid increased by approximately 8% and 9% in 2011 and 2012, while the cost of triethanolamine increased by approximately 1% and 8% in 2011 and 2012. The average cost of sales per can was approximately RMB1.65, RMB1.76 and RMB2.07 for the three years ended 31 December 2010, 2011 and 2012 respectively.

The gross profit margin of our personal care products decreased from approximately 39.34% for the three months ended 31 March 2012 to approximately 32.29% for the three months ended 31 March 2013. Such decrease was mainly due to the increase of the average cost of sales from approximately RMB2.06 per can for the three months ended 31 March 2012 to approximately RMB2.36 per can for the three months ended 31 March 2013. The reason for the increase in average cost of sales was similar to the reason above, of which the cost of direct material had increased.

Insecticides

The gross profit margin of insecticides increased from approximately 31.43% for the year ended 31 December 2010 to approximately 34.69% for the year ended 31 December 2011. Such increase was mainly due to the adjustment of marketing strategy by reducing the sales of mosquito's repellent incenses and increasing the sales of aerosol insecticide, which had a relatively higher gross profit margin, at the same time. As a result, there was an increase of the average selling price from approximately RMB2.88 per can for the year ended 31 December 2010 to approximately RMB4.70 per can for the year ended 31 December 2011.

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The gross profit margin of insecticides increased from approximately 34.69% for the year ended 31 December 2011 to approximately 38.25% for the year ended 31 December 2012. Such increase was primarily due to the decrease in the average cost of sales from approximately RMB3.06 per can for the year ended 31 December 2011 to approximately RMB1.97 per can for the year ended 31 December 2012 as a result of adjustment of marketing strategy by devoting more sales effort to aerosol insecticide with relatively higher gross profit margin.

The gross profit margin of insecticides decreased from approximately 43.19% for the three months ended 31 March 2012 to approximately 37.07% for the three months ended 31 March 2013. Such decrease was primarily due to the increase in sales of mosquito-repellent incenses for the three months ended 31 March 2013 which had lower gross profit margin as compare to aerosol insecticide.

Overall analysis of gross profit margin of CMS products and OBM products

The gross profit margins of our CMS products are relatively lower than that of our OBM products due to:

1. Our CMS products are mainly sold to outsourcing agents of overseas brand owners and export and trading companies. The brand owners will further market the products under their own brand names therefore to account for the cost of marketing required by these brand owners, our CMS products are often sold at a relatively lower selling price as compare to that of OBM products. Vice versa, the selling price of our OBM products had to take into account the cost of advertising and selling staff in order to promote our brand name.
2. Since our OBM products are sold under our own brand names and through our distributor network therefore we had greater power to negotiate with our Distributors on the selling price and owing to our trademarks are more recognized by the market therefore a relatively higher price can be charged.

However, to further develop and enhance the acceptance of our brand name in 2012, our OBM products such as household and auto care products would be sold at a lower profit margin such that our Distributors would increase their purchases and promote the sales of such products.

Gross profit for connected sales

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Gross profit					
Independent sales	35,002	48,256	50,300	7,534	12,673
Connected sales	708	1,128	4,978	2,448	56
Total	35,710	49,384	55,278	9,982	12,729

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The gross profit margin for sales to independent customers was approximately 23.59%, 23.37%, 23.55% and 23.40% for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively. The gross profit margin for independent customers had remained stable during the Track Record Period.

The gross profit margin for connected sales was approximately 18.52%, 18.13%, 32.70% and 28.72% for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013. The increase in gross profit margin in 2012 was due to the adjustment of marketing strategy by increasing the sales of aerosol insecticide which has a relatively higher gross profit margin.

The gross profit margin of our connected sales in 2010 and 2011 was relatively lower than the gross profit margin of overall OBM sales due to the fact that our OBM business was still in the early stage of development which has to leverage on the established distribution network of Yiwu Weiwei for expansion. Yiwu Weiwei's contribution was to enhance the brand awareness and market recognition of our OBM products due to its location and distribution network as a whole in Yiwu City in Zhejiang Province.

Other Income and gains/(losses)

Other income and gains/(losses) mainly comprised income from government grants, sales of scrap material and exchange losses.

The table below shows the breakdown of our other income and gains/(losses) for the Track Record Period:

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants					
— Research and development	252	617	550	—	10
— IPO subsidy	—	—	2,645	—	—
Sales of scrap material	—	—	2,264	—	253
Exchange losses	(699)	(881)	(398)	(30)	(535)
Others	68	(101)	49	26	—
	(379)	(365)	5,110	(4)	(272)

Government grants represent subsidies for research and development expenditures, and incentive for our Company to attempt an initial public offering for the listing of its shares on Main Board of Stock Exchange of Hong Kong Limited. The IPO subsidy was recognized and received in full in 2012. It is an one-off subsidy with no further conditions required to be satisfied by us in the future, as such, no refund is necessary if the Company's IPO does not materialize.

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Scrap materials include inventories that had been written off during the Track Record Period and scraps which had been incurred during the production of our products. The scrap materials were only sold in 2012 which was due to the fact that the management decided to sell the scrap materials in bulk when the scrap prices offered by the dealers were more favorable.

Our principal operation is in PRC and RMB is our functional currency. Exchange differences represented the differences arising from the translation of our foreign currency transactions into our functional currency using the spot rate at the time of transaction. Since RMB had been appreciating against US\$, we recorded exchange losses of approximately RMB0.70 million, RMB0.88 million and RMB0.40 million for the three years ended 31 December 2010, 2011 and 2012, principally due to the translation of our US\$-denominated trade receivable to RMB.

The sale of scrap materials by us in 2012 was due to the fact that we had to clear up the accumulated inventory based on the recommendation from the internal control adviser for the implementation of a more effective inventory policy. As such, we approached and successfully sold the scrap materials to 12 customers in the second half of 2012.

The scrap materials included approximately RMB0.53 million of packaging material, in which approximately 6.42%, 74.86%, 4.83%, nil and 13.90% brought forward from 2007, 2008, 2009, 2010 and 2011 respectively; and approximately RMB1.74 million of finished goods, in which approximately 3.50%, 29.08%, 47.84%, 19.05% and 0.53% brought forward from 2007, 2008, 2009, 2010 and 2011 respectively.

The scrap material brought forward from 2007, 2008, 2009, 2010 and 2011 represents approximately 0.09%, 1.40%, 4.21%, 1.65% and 0.62% of the inventory balances of including those relating to VAT for each of the respective year. The PRC Legal Adviser confirmed that our sales and treatment of scrap material in 2012 complied with all relevant law and regulation.

The sale of scrap material by us for the three months ended 31 March 2013 included packaging material of approximately RMB8,600 and finished goods of approximately RMB0.24 million. These scrap materials were accumulated by us in late 2012 and in early 2013.

Selling expenses

Our selling expenses primarily consists of staff related costs, transportation and travelling expenses and exhibition expenses.

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The following table sets forth the breakdown of our selling expenses during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff salaries, allowance and bonus	1,104	16.02%	1,099	13.67%	2,640	26.50%	583	28.95%	904	32.51%
Entertainment expenses	79	1.15%	77	0.96%	72	0.72%	10	0.50%	27	0.97%
Travelling and transportation expenses	4,194	60.89%	5,854	72.79%	6,087	61.07%	1,295	64.30%	1,561	56.13%
Advertising expenses	523	7.59%	226	2.81%	142	1.42%	12	0.60%	70	2.52%
Exhibition expenses	785	11.40%	470	5.84%	366	3.67%	66	3.28%	56	2.01%
Others	204	2.95%	316	3.93%	660	6.62%	48	2.37%	163	5.86%
Total	<u>6,889</u>	<u>100.00%</u>	<u>8,042</u>	<u>100.00%</u>	<u>9,967</u>	<u>100.00%</u>	<u>2,014</u>	<u>100.00%</u>	<u>2,781</u>	<u>100.00%</u>

The selling expenses were approximately 4.53%, 3.78%, 4.36% and 5.12% of our total revenue for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively. The selling expenses increased from approximately RMB6.89 million for the year ended 31 December 2010 to approximately RMB8.04 million for the year ended 31 December 2011 which were directly attributable from the increase in transportation cost as sales to CMS customers increased.

The selling expenses increased from approximately RMB8.04 million for the year ended 31 December 2011 to approximately RMB9.97 million for the year ended 31 December 2012, which was primarily due to the significant increase in staff salaries, allowance and bonus as a result of the expansion of our domestic sales team in 2012.

The selling expenses increased from approximately RMB2.01 million for the three months ended 31 March 2012 to approximately RMB2.78 million for the three months ended 31 March 2013. The increase was due to the continuous expansion of our domestic sales which leads to an increase in expenses for staff salaries and travelling and transportation expenses.

General and administrative expenses

Our general and administrative expenses primarily consist of staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax, entertainment expenses and listing expenses.

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The following table sets forth the breakdown of the general and administrative expenses of our Group during the Track Record Period:

	Year ended 31 December						Three months ended 31 March			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff salaries and benefit expenses	2,725	25.88%	3,681	24.68%	3,843	16.72%	732	15.75%	1,152	25.03%
Depreciation and amortisation	1,365	12.96%	1,495	10.02%	1,746	7.60%	415	8.93%	448	9.74%
Travelling and transportation expenses	197	1.87%	451	3.02%	394	1.72%	65	1.40%	105	2.28%
Office expenses	185	1.76%	311	2.09%	288	1.25%	32	0.69%	47	1.02%
Research and development	4,971	47.21%	6,876	46.11%	8,448	36.76%	1,323	28.47%	1,650	35.85%
Tax (exclude income tax)	656	6.23%	704	4.72%	472	2.05%	54	1.16%	100	2.17%
Telecommunication expenses	118	1.12%	142	0.95%	212	0.92%	31	0.67%	65	1.41%
Entertainment expenses	62	0.59%	182	1.22%	131	0.57%	—	—	46	1.00%
Listing expenses	—	—	—	—	6,471	28.16%	1,966	42.31%	650	14.13%
Others	250	2.38%	1,071	7.19%	975	4.25%	29	0.62%	339	7.37%
Total	10,529	100.00%	14,913	100.00%	22,980	100.00%	4,647	100.00%	4,602	100.00%

The general and administrative expenses were approximately 6.92%, 7.01%, 10.04% and 8.47% of our total revenue for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013. The increase of general and administrative expenses as a percentage of revenue in 2012 as compare to 2010 and 2011 was primarily due to (i) approximately RMB6.47 million listing expenses incurred by us during the year ended 31 December 2012; and (ii) approximately RMB1.57 million increase in research and development expenses as we continue to place strong emphasis on research and development activities.

The decrease in general and administrative expenses for the three months ended 31 March 2013 as compare to the same period in 2012 was primarily due to the aggregate impact of (i) decrease in listing expense charged; and (ii) increase in research and development expense and staff salaries as we continue to expand for the three months ended 31 March 2013.

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Finance income/(expense)

The following table sets forth the breakdown of finance income/(expense) of us during the Track Record Period:

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income	998	462	877	256	175
Interest expense	(20)	—	(21)	(21)	—
Total	978	462	856	235	175

Taxation

Our PRC operating subsidiary, Ludao (PRC), had been qualified as a High and New Technology Enterprise, which was accordingly entitled to the preferential tax rate of 15% for the three years ended 31 December 2010, 2011 and 2012.

As advised by our PRC Legal Adviser, for recognition as a High and New Technology Enterprise, an enterprise shall meet the following conditions:

- (a) being an enterprise registered in China (excluding Hong Kong, Macao and Taiwan regions) and owns the independent intellectual property rights in the core technology of its main products (or services) through its own independent research and development, assignment, endowment, mergers and acquisitions, etc. during the past three years, or through an exclusive license therefor of at least five years;
- (b) its products (or services) falling within the scope specified in Hi-tech Sectors Supported by the State on a Priority Basis* (國家重點支持的高新領域);
- (c) science and technology personnel who have received tertiary education or above accounted for at least 30% of its total workforce during the years in question, and the research and development personnel therein accounted for at least 10% of its total workforce during the years in question;
- (d) engages in research and development activities on an ongoing basis in order to obtain new scientific and technological (excluding humanities and social science) knowledge, creatively apply new scientific and technological knowledge or substantively improve its technology, products (or services) and, during the most recent three financial years, the percentage of its total sales revenues accounted for by its total research and development expenses should be in line with the following requirements: (i) for an enterprise with sales revenue of less than RMB50 million during the most recent year, a percentage of not less than 6%; (ii) for an enterprise with sales revenue of at least RMB50 million but less than RMB200 million during

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the most recent year, a percentage of not less than 4%; (iii) for an enterprise with sales revenue of at least RMB200 million during the most recent year, a percentage of not less than 3%; furthermore, its total research and development expenses incurred within territory of the PRC shall account for not less than 60% of the total expenses of the research and development; in the event that the enterprise has been incorporated for less than three years, the calculation shall be made in accordance with the actual number of years it has been in operation;

- (e) the revenue from its hi-tech products (or services) accounted for at least 60% of its total revenue for the year in question; and
- (f) its indicators such as the management level of its research and development organisation, capacity to apply practically its scientific and technological achievements, the quantity of its independent intellectual property rights, sales and total assets growth, etc., shall be in line with the requirements set forth in Guidelines for the Management of Recognition of High and New Technology Enterprise* (高新技術企業認定管理工作指引), the aforesaid four indicators are used to evaluate the enterprise's technology resources for innovation, management innovation, innovation to achieve results, etc., and to take a weighted scoring method that is required to achieve more than 70 points.

Our Group engaged an independent professional PRC tax adviser to verify whether all of the above conditions have been met for the three years ended 31 December 2010, 2011 and 2012, and the professional PRC tax advisor opined that we have fulfilled all conditions. Based on the report prepared by the PRC tax adviser, conditions (a) and (b) are fulfilled in that Ludao (PRC) being a PRC registered company owns the intellectual property rights in the core technology of our main products during the Track Record Period, for details of the relevant intellectual property registrations, please refer to the paragraph headed "Patent" in the section headed "Statutory and General Information" of this prospectus. Further, our products, namely *inter alia* aerosol products for animal and plant care* (動物及植物護理用氣霧劑), silver-nano aerosol products* (納米銀氣霧劑), aerosol products for auto and industrial use* (汽車及工業用氣霧劑) and aerosol products for textile care* (紡織品護理和氣霧劑), are within the scope specified in Hi-tech Sectors Supported by the State on a Priority Basis* (國家重點支持的高新領域).

Condition (c) has also been met for the three years ended 31 December 2010, 2011 and 2012, our Group has respectively 78, 74 and 97 science and technology personnel who have received tertiary education, which accounted for approximately 30.83%, 31.22% and 32.01% of our total workforce in the same years. Out of the 78, 74 and 97 science and technology personnel stated above, 34, 34 and 33 of them, representing approximately 13.44%, 14.35% and 10.89% of our total workforce of the same years are engaged in research and development projects.

As to condition (d), our Group engaged in research and development activities on an ongoing basis, and all our research and development expenses during the Track Record Period are incurred with the PRC. As confirmed and verified by the PRC tax adviser, our research and development expenses for the three years ended 31 December 2010, 2011 and 2012 are approximately RMB4.97 million, RMB6.87 million and RMB8.45 million respectively, which accounted for more than 3% of our sales revenues of the same years. We have therefore met the requirement of condition (d).

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In respect of condition (e), the PRC tax adviser has also verified our revenues from hi-tech products for the three years ended 31 December 2010, 2011 and 2012, which is approximately RMB132.26 million, RMB184.31 million and RMB181.45 million respectively and accounted for more than 60% of our total revenues of the same years. Accordingly, condition (e) is fulfilled.

On the basis that our Group has met the aforementioned conditions (a) to (e), our PRC Legal Adviser advised that there should be no material legal impediment for us to extend the recognition as a High and New Technology Enterprise. As at the Latest Practicable Date, Ludao (PRC) has already applied for the renewal of the certificate on High and New Technology Enterprise from relevant authorities in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Three months ended 31 March 2013 compared to three months ended 31 March 2012

Revenue

Our revenue increased by approximately 19.72% from approximately RMB45.39 million for the three months ended 31 March 2012 to approximately RMB54.34 million for the three months ended 31 March 2013, which was primarily due to approximately 19.21% increase in sales to the United States of America from approximately RMB30.14 million for the three months ended 31 March 2012 to approximately RMB35.93 million for the three months ended 31 March 2013. The increase in sales in the United States of America was due to the recovery of the local economy.

Cost of sales

Our cost of sales was approximately RMB35.41 million and RMB41.61 million for the three months ended 31 March 2012 and 2013, representing approximately 78.01% and 76.58% of the total revenue respectively. The decrease in percentage of cost of sales to the total revenue was mainly due to the decrease in production cost for our CMS hair care products and insecticides products.

Gross profit and gross profit margin

Our gross profit increased by approximately 27.52%, from approximately RMB9.98 million for the three months ended 31 March 2012 to approximately RMB12.73 million for the three months ended 31 March 2013. Such increase in gross profit was mainly attributable to (i) the increase in revenue for the three months ended 31 March 2013; and (ii) the decrease in production cost for our CMS hair care products and insecticides products.

Selling expenses

Selling expenses increased by approximately 38.08% from approximately RMB2.01 million for the three months ended 31 March 2012 to approximately RMB2.78 million for the three months ended 31 March 2013 as a result of our expansion in domestic sales which increased staff salaries and travelling and transportation expenses for the three months ended 31 March 2013.

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General and administrative expenses

Our general and administrative expenses decreased by approximately 1.08% from approximately RMB4.65 million for the three months ended 31 March 2012 to approximately RMB4.60 million for the three months ended 31 March 2013. The slight decrease was due to an aggregate impact of (i) a decrease of approximately RMB1.32 million in listing expenses charged; (ii) increase in research and development expenses by approximately RMB0.33 million as we continue to put strong emphasis on research and development; and (iii) increase in other expenses including staff salaries due to the continue increase in our size.

Finance income/(expense)

Our finance income decreased by approximately RMB0.06 million as a result of the decrease in the interest income which was due to the decrease of the average monthly pledged bank deposits from approximately RMB29.10 million for the three months ended 31 March 2012 to approximately RMB18.77 million for the three months ended 31 March 2013.

Profit for the period and net profit margin

Our profit for the period increased by approximately 64.15% from approximately RMB2.65 million for the three months ended 31 March 2012 to approximately RMB4.35 million for the three months ended 31 March 2013, which was primarily attributable to the increase in revenue from CMS customer. Net profit margin increased from approximately 5.84% for the three months ended 31 March 2012 to approximately 8.00% for the three months ended 31 March 2013. Such increase in net profit margin was due to (i) increase in gross profit margin as mentioned above; and (ii) decrease in listing expenses for the three months ended 31 March 2013 as compare to 31 March 2012.

Year ended 31 December 2012 compared to year ended 31 December 2011

Revenue

Our revenue increased by approximately 7.61% from approximately RMB212.68 million for the year ended 31 December 2011 to approximately RMB228.85 million for the year ended 31 December 2012, which was primarily due to approximately 130% increase in sales in the PRC from approximately RMB16.63 million for the year ended 31 December 2011 to approximately RMB38.21 million for the year ended 31 December 2012. The increase in sales in the PRC was due to (i) an increase in average unit selling price from approximately RMB2.60 to approximately RMB2.68; (ii) the growing recognition of our OBM brands; (iii) the expansion of our product offering; and (iv) the continued expansion of our domestic distribution network.

Cost of sales

Cost of sales increased from approximately RMB163.29 million for the year ended 31 December 2011 to approximately RMB173.57 million for the year ended 31 December 2012, representing an increase of approximately 6.30%. Such increase was mainly attributable to the increase in our revenue

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for the corresponding year. The slight decrease in percentage of cost of sales to total revenue from approximately 76.78% for the year ended 31 December 2011 to approximately 75.85% for the year ended 31 December 2012 was mainly due to the slight decrease in the purchase price of aerosol can.

Gross profit and gross profit margin

Gross profit increased by approximately 11.94% from approximately RMB49.38 million for the year ended 31 December 2011 to approximately RMB55.28 million for the year ended 31 December 2012. Such increase in gross profit was mainly attributable to (i) the increase in the revenue for the year ended 31 December 2012; and (ii) the decrease in the cost of sales as a percentage of total revenue.

The gross profit margin increased from approximately 23.22% for the year ended 31 December 2011 to approximately 24.15% for the year ended 31 December 2012 as a result of an increase in average unit selling price of our products from approximately RMB2.60 in 2011 to approximately RMB2.68 in 2012.

Selling expenses

Selling expenses increased by approximately 24.00% from approximately RMB8.04 million for the year ended 31 December 2011 to approximately RMB9.97 million for the year ended 31 December 2012 as a result of the increase in staff salaries, which was mainly due to the expansion of our domestic sale.

General and administrative expenses

Our general and administrative expenses increased by approximately 54.12% from approximately RMB14.91 million for the year ended 31 December 2011 to approximately RMB22.98 million for the year ended 31 December 2012, as a result of the listing expense incurred in the year.

Finance income/(expense)

Our finance income increased by approximately RMB0.39 million as a result of the increase in total pledged bank deposits made in 2012 as compare to 2011. The average monthly pledged bank deposit increased from approximately RMB21.92 million for the year ended 31 December 2011 to approximately RMB25.82 million for the year ended 31 December 2012. In addition, the total cash and cash equivalent balance had increased from approximately RMB4.27 million as at 31 December 2011 to approximately RMB36.28 million as at 31 December 2012 due to repayment of approximately RMB30.54 million from the Controlling Shareholder.

Profit for the year and net profit margin

Our profit for the year increased by approximately 5.78% from approximately RMB22.51 million for the year ended 31 December 2011 to approximately RMB23.81 million for the year ended 31 December 2012, which was primarily attributable to the increase in revenue from OBM customer. Net profit margin remained stable at approximately 10.59% for the year ended 31 December 2011 to approximately 10.40% for the year ended 31 December 2012.

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Year ended 31 December 2011 compared to year ended 31 December 2010

Revenue

Our revenue increased by approximately 39.74% from approximately RMB152.19 million for the year ended 31 December 2010 to approximately RMB212.68 million for the year ended 31 December 2011, which was primarily attributable to (i) an increase in the sales of household and auto care products from approximately RMB97.26 million to approximately RMB121.60 million as a result of the increase in the orders from the customers in the US and the increase in average selling price in 2011; and (ii) an increase in the sales of air-fresheners products from approximately RMB33.44 million to approximately RMB62.22 million as a result of the increase of the orders from the customers in the US and the increase in the selling price.

Cost of sales

Our cost of sales was approximately RMB163.29 million and approximately RMB116.48 million for the year ended 31 December 2011 and 2010, representing approximately 76.78% and 76.54% of the total revenue respectively. The percentage of cost of sales to the total revenue was relatively stable in the respective years.

Gross profit and gross profit margin

Our gross profit increased by approximately 38.29% from approximately RMB35.71 million for the year ended 31 December 2010 to approximately RMB49.38 million for the year ended 31 December 2011. Such increase in gross profit was mainly attributable to the increase in the revenue for the year ended 31 December 2011.

The gross profit margin remained stable from approximately 23.46% for the year ended 31 December 2010 to approximately 23.22% for the year ended 31 December 2011.

Selling expenses

Our selling expenses increased by approximately 16.69% from approximately RMB6.89 million for the year ended 31 December 2010 to approximately RMB8.04 million for the year ended 31 December 2011 as a result of the increase in transportation expense, which was mainly due to the cost of delivery charged by the transportation companies as a result of the increase in the cost of fuel and the increase of the revenue.

General and administrative expenses

Our general and administrative expenses increased by approximately 41.60% from approximately RMB10.53 million for the year ended 31 December 2010 to approximately RMB14.91 million for the year ended 31 December 2011. Such increase was mainly due to the impact of the increase of research and development in 2011 as we have incurred approximately RMB3.00 million in the development of new products.

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Finance income/(expense)

Our net finance income was reduced by approximately RMB0.52 million as a result of the average monthly pledged bank deposits decreased from approximately RMB31.10 million in 2010 to approximately RMB21.19 million in 2011.

Profit for the year and net profit margin

Our profit for the year increased by approximately 40.60% from approximately RMB16.01 million for the year ended 31 December 2010 to approximately RMB22.51 million for the year ended 31 December 2011, which was primarily attributable to the increase in revenue. Net profit margin increased from approximately 10.52% for the year ended 31 December 2010 to approximately 10.59% for the year ended 31 December 2011. Such increase was due to the increase in average selling price and effective cost control on operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

Our primary use of cash during the Track Record Period was for the purchase of raw materials, payment of staff salaries and general and administrative expenses. We historically financed our liquidity requirements primarily through cash generated from our operating activities, bank facilities, notes payable, shareholders' capital contributions and retained earnings. Going forward, we believe that cash generated from operations and bank facilities, together with the proceeds of the Share Offer, will be our primary sources of liquidity as well as funding for capital expenditures.

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The following table is a condensed summary of our cash flow for the years/periods indicated.

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net cash (used in)/generated from operating activities	7,033	1,812	2,948	(17,007)	(17,751)
Net cash (used in)/generated from investing activities	20,233	(14,939)	4,204	4,085	(1,887)
Net cash (used in)/generated from financing activities	<u>(26,303)</u>	<u>9,137</u>	<u>24,864</u>	<u>18,428</u>	<u>(8,305)</u>
Net increase/(decrease) in cash and cash equivalents	963	(3,990)	32,016	5,506	(27,943)
Cash and cash equivalents at beginning of the year/period	<u>7,295</u>	<u>8,258</u>	<u>4,268</u>	<u>4,268</u>	<u>36,284</u>
Cash and cash equivalents at end of the year/period	<u><u>8,258</u></u>	<u><u>4,268</u></u>	<u><u>36,284</u></u>	<u><u>9,774</u></u>	<u><u>8,341</u></u>

Operating activities

We derive our cash flow from operating activities primarily through the receipt of payments for the sale of our products. Our cash flow used in operating activities is used primarily for raw material purchases, payment of production cost, selling and distribution cost, and research and development costs.

For the three months ended 31 March 2013, net cash used in operating activities was approximately RMB17.75 million, consisting of cash used in operations of approximately RMB16.60 million and income tax paid of approximately RMB1.15 million. Cash used in operations primarily reflected the profit before income tax of approximately RMB5.25 million, as adjusted for income statement items with no operating cash effect and the increase in working capital. The increase in working capital was mainly due to the increase in trade and other receivables by approximately RMB13.01 million, as well as the increase in inventories by approximately RMB5.54 million, and was partially offset by the decrease in trade and other payables by approximately RMB3.96 million.

For the year ended 31 December 2012, the net cash generated from operating activities was approximately RMB2.95 million, consisting of cash generated from operations of approximately RMB8.45 million, income tax paid of approximately RMB5.48 million, as well as interest paid of approximately RMB0.02 million. Cash generated from operations primarily reflected the profit before income tax of approximately RMB28.30 million, as adjusted for income statement items with no operating cash effect and the decrease in working capital. The decrease in working capital was mainly

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due to the decrease in trade and other receivables by approximately RMB12.59 million, it was partially offset by the increase in inventories by approximately RMB2.56 million and the decrease in trade and other payables by approximately RMB31.82 million.

For the year ended 31 December 2011, the net cash generated from operating activities was approximately RMB1.81 million, consisting of cash used in operations of approximately RMB3.21 million and income tax paid of approximately RMB1.39 million. Cash used in operations primarily reflected the profit before income tax of approximately RMB26.53 million, as adjusted for income statement items with no operating cash effect and the increase in working capital. The increase in working capital was mainly due to the increase in trade and other receivables by approximately RMB49.85 million, as well as the increase in inventories by approximately RMB2.68 million, which was partially offset by the increase in trade and other payables by approximately RMB26.82 million.

For the year ended 31 December 2010, the net cash generated from operating activities was approximately RMB7.03 million, consisting of cash generated from operations of approximately RMB12.72 million, income tax paid of approximately RMB5.66 million, as well as interest paid of approximately RMB0.02 million. Cash generated from operations primarily reflected the profit before income tax of approximately RMB18.89 million, as adjusted for income statement items with no operating cash effect and the increase in working capital. The increase in working capital was mainly due to the increase in trade and other receivables by approximately RMB6.83 million and the increase in inventories by approximately RMB0.43 million.

Investing activities

We derive our cash generated from investing activities principally from proceeds from the disposal of property, plant and equipment. Our outflow for investing activities is principally for purchases of property, plant and equipment.

For the three months ended 31 March 2013, our net cash used in investing activities was approximately RMB1.89 million, primarily reflecting the prepayment of land use rights of approximately RMB5.70 million and the decrease in pledged bank deposits of approximately RMB4.69 million.

For the year ended 31 December 2012, our net cash generated from investing activities was approximately RMB4.20 million, primarily reflecting the purchase of property, plant and equipment of approximately RMB4.70 million, the interest received of approximately RMB0.88 million and the decrease of pledged bank deposits of approximately RMB9.10 million.

For the year ended 31 December 2011, our net cash used in investing activities was approximately RMB14.94 million, primarily reflecting the purchase of property, plant and equipment of approximately RMB5.55 million for the improvement of production facilities in 2011 and the increase in pledged bank deposit of approximately RMB10.82 million.

For the year ended 31 December 2010, our net cash generated from investing activities was approximately RMB20.23 million, primarily reflecting the purchase of property, plant and equipment of approximately RMB3.49 million, the interest received of approximately RMB1.00 million and decrease in pledged bank deposit of approximately RMB22.97 million.

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Financing activities

Our net cash flows used in financing activities for the three months ended 31 March 2013 was approximately RMB8.31 million. This amount was primarily attributable to the proceeds from notes payable of approximately RMB26.86 million and was offset by the repayment of notes payable of approximately RMB35.16 million.

Our net cash flows from financing activities in 2012 was approximately RMB24.86 million. This amount was primarily attributable to the proceeds from related parties of approximately RMB30.54 million and notes payable of approximately RMB127.20 million which was offset by the repayment of notes payable of approximately RMB132.88 million.

Our net cash flows from financing activities in 2011 was approximately RMB9.14 million. This amount was primarily attributable to the proceeds from related parties of approximately RMB10.22 million and notes payable of approximately RMB121.39 million. This was partially offset by the repayment of notes payable of approximately RMB97.27 million and to related parties of approximately RMB25.19 million.

Our net cash flows used in financing activities in 2010 was approximately RMB26.30 million. This amount was primarily attributable to the net repayment to related parties of approximately RMB4.04 million, the repayment of notes payable of approximately RMB128.74 million and was partially offset by the proceeds from notes payable of approximately RMB106.59 million.

COMMITMENTS

Operating lease commitments

The following table sets out the aggregate amounts of our contractual obligations on a consolidated basis during the Track Record Period:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	—	103	261	253
Later than one year and not later than five years	—	131	642	581
Total	—	234	903	834

We lease certain of its office premises under non-cancellable operating lease agreements.

Capital commitments

We had no significant capital commitments during the Track Record Period.

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INDEBTEDNESS

The following table sets out our indebtedness as at each of the balance sheet dates during the Track Record Period:

Borrowings

The following table set out the borrowings during the Track Record Period:

	As at 31 December			As at 31 March	As at 31 July
	2010	2011	2012	2013	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Bank borrowings	—	—	—	—	7,000
Notes payable	<u>48,536</u>	<u>72,652</u>	<u>66,973</u>	<u>58,668</u>	<u>56,630</u>
Total	<u><u>48,536</u></u>	<u><u>72,652</u></u>	<u><u>66,973</u></u>	<u><u>58,668</u></u>	<u><u>63,630</u></u>

In respect of bank borrowings, during the Track Record Period, the bank borrowing in 2012 maintained by us amounted to approximately RMB6.00 million, which had been subsequently repaid in the following months. We had not experienced any difficulty in obtaining bank borrowings during the Track Record Period. We also had positive cash flow generated from operating activities and in good financial position. As we had been frequently approached by various bank representatives during the Track Record Period for the purpose of offering bank borrowing to us, our Directors believe that we had no difficulty in obtaining bank borrowings. As at the Latest Practicable Date, our Company has approximately RMB7.00 million bank borrowings.

The notes payable represented non-interest bearing bank acceptance notes with maturity dates within six months. We are able to obtain the non-interest bearing bank acceptance notes due to the fact that these notes were (i) pledged by our bank deposits and secured by our property, plant and equipment and our land use right as at 31 December 2010, 2011, 2012 and 31 March 2013; (ii) secured by the land use right and the buildings of Zhejiang Lujia, a related party of our Group as at 31 December 2010 and 2011. The security was released in 2012; and (iii) secured by the personal guarantee from both Mr. Yu and Mrs. Yu amounting to approximately RMB45 million, RMB50 million, RMB37 million and RMB37 million as at 31 December 2010, 2011, 2012 and 31 March 2013. As the amount of bank acceptance note had decreased from 2011 to 2012, there will be a corresponding decrease in the guarantee amount by both Mr. Yu and Mrs. Yu in the same extent and vice versa.

As at 31 March 2013, our Company had arranged a maximum of approximately RMB67.14 million facility for issue of notes with two banks which were secured by our pledged bank deposits of approximately RMB17.60 million, our property, plant and equipment, our land use right and personal guarantee from both Mr. Yu and Mrs. Yu. As our Company had incurred approximately RMB58.67 million notes payable, therefore our Company had unutilized notes payable of approximately RMB8.47 million as at 31 March 2013.

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As notes payable are non-interest bearing, our Directors believe that it is of the interest of us to finance our purchases through notes payable instead of bank borrowings. As at the Latest Practicable Date, we have approximately RMB10.36 million unutilized non-interest bearing bank acceptance notes.

ANALYSIS OF SELECTED COMBINED STATEMENT OF FINANCIAL POSITION ITEMS

Net current assets

Details of our current assets and liabilities as at each of the balance sheet dates during the Track Record Period are as follows:

	As at 31 December			As at 31 March	As at 31 July
	2010	2011	2012	2013	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	19,020	21,856	24,590	30,129	34,218
Trade and other receivables	38,666	87,912	77,121	89,299	94,938
Cash and cash equivalents	8,258	4,268	36,284	8,341	7,888
Pledged bank deposits	<u>20,567</u>	<u>31,389</u>	<u>22,287</u>	<u>17,596</u>	<u>17,028</u>
	<u>86,511</u>	<u>145,425</u>	<u>160,282</u>	<u>145,365</u>	<u>154,072</u>
Current liabilities					
Bank borrowing	—	—	—	—	7,000
Trade and other payables	83,377	118,387	114,963	101,840	103,129
Current income tax liabilities	<u>—</u>	<u>2,462</u>	<u>1,437</u>	<u>1,185</u>	<u>222</u>
	<u>83,377</u>	<u>120,849</u>	<u>116,400</u>	<u>103,025</u>	<u>110,351</u>
Net current assets	<u>3,134</u>	<u>24,576</u>	<u>43,882</u>	<u>42,340</u>	<u>43,721</u>

Our net current asset increased from approximately RMB3.13 million as at 31 December 2010 to approximately RMB24.58 million as at 31 December 2011. Such increase was mainly due to the net impact of (i) the increase in trade and other receivables of approximately RMB49.25 million as a result of the increase in sales near year end; (ii) the increase in pledged bank deposits of approximately RMB10.82 million as a result of the increase of the issue of notes payable for the purchase of raw material; and (iii) the increase in trade and other payables of approximately RMB35.01 million as a result of the increase in purchase of raw materials.

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Our net current asset had increased from approximately RMB24.58 million as at 31 December 2011 to approximately RMB43.88 million as at 31 December 2012. Such increase was mainly due to the net impact of (i) the reduction of trade and other receivables of approximately RMB10.79 million as a result of the settlement from related parties of approximately RMB6.82 million and the settlement of the amount due from Mr. Yu of approximately RMB30.54 million; and (ii) the reduction of trade and other payables of approximately RMB3.42 million as a result of the decrease in notes payable due to repayment to the issued bank.

Our net current asset had decreased from approximately RMB43.88 million as at 31 December 2012 to approximately RMB42.34 million as at 31 March 2013. Such decrease was mainly due to the net impact of (i) increase in inventory of approximately RMB5.54 million; (ii) increase in trade and other receivables of approximately RMB12.18 million; and (iii) the reduction of cash and cash equivalent of approximately RMB27.94 million.

As at 31 July 2013, we had net current assets of approximately RMB43.72 million, compared to our net current assets of approximately RMB42.34 million as at 31 March 2013, representing a slight increase of approximately RMB1.38 million. This slight change was primarily due to the net impact of (i) increase in our inventories of approximately RMB4.09 million which was due to an increase in our raw material to be used in production for the second half of the year; (ii) increase in trade and other receivable of approximately RMB5.64 million; and (iii) increase in our bank borrowings of RMB7.00 million which was primarily used for the purchase of fixed assets and working capital purposes.

Inventory analysis

During the Track Record Period, inventory was one of the principal components of our current assets. The value of our inventories accounted for approximately 21.99%, 15.03%, 15.34% and 20.73% of current assets as at 31 December 2010, 2011, 2012 and 31 March 2013. The following table is a summary of our balance of inventories, which was stated at cost, as at each of the balance sheet dates during the Track Record Period:

	As at 31 December						As at 31 March	
	2010		2011		2012		2013	
	RMB'000		RMB'000		RMB'000		RMB'000	
	Cost	NBV	Cost	NBV	Cost	NBV	Cost	NBV
Raw material	9,425	9,425	12,042	12,042	14,671	14,671	14,707	14,707
Work in progress	1,047	1,047	1,353	1,353	2,214	2,214	2,827	2,827
Finished goods	9,084	8,548	8,838	8,461	7,906	7,705	12,796	12,595
	<u>19,556</u>	<u>19,020</u>	<u>22,233</u>	<u>21,856</u>	<u>24,791</u>	<u>24,590</u>	<u>30,330</u>	<u>30,129</u>

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The inventory aging by category as at 31 March 2013 are as follow:

	<u>0-30 days</u>	<u>31-60 days</u>	<u>Over 60 days</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	6,986	1,743	5,978	14,707
Work in progress	1,596	527	704	2,827
Finished goods	4,038	3,728	5,030	12,796
	12,620	5,998	11,712	30,330

The following table sets out our average inventory turnover days during the Track Record Period:

	<u>Year ended 31 December</u>			<u>Three months ended</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>31 March</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Average inventory turnover days (note (1))	58	46	49	59

Note:

- (1) Average inventory turnover days equals average of the beginning and ending balance of inventories for the year/period divided by cost of sales for the year/period, and multiplied by 365 days (for the three years ended 31 December 2010, 2011 and 2012) or 90 days (for the three months ended 31 March 2013).

Our inventory mainly comprises of raw materials, work in progress and finished goods. In general, our inventory has a useful life of 2 years. It is our policy to make provision for inventory based on aging analysis and compare the carrying value of inventories to their respective realisable value. We had reversed provision for inventories as the relevant inventories were sold to independent customers amounting to approximately RMB0.60 million, RMB0.16 million, RMB0.18 million and nil for the three years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013 respectively.

As at 31 December 2010 and 2011, our inventory was approximately RMB19.02 million and approximately RMB21.86 million respectively. The inventory turnover days during the respective years were 58 days and 46 days. Such decrease in the inventory turnover days was mainly due to our adoption of the measures that our purchasing department reviews and monitors our inventory level in a monthly basis so as to maintain an appropriate level of inventory, existing storage of each kind of raw materials and its prevailing purchase price.

As at 31 December 2012, our inventory was approximately RMB24.59 million. The inventory turnover days for the year ended 31 December 2012 was 49 days similar to that for the year ended 31 December 2011.

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As at 31 March 2013, our inventory was approximately RMB30.13 million. The increase in inventory of approximately RMB5.54 million as compare to that as at 31 December 2012 was due to seasonal factor. As it is traditionally off-season in the first quarter therefore finished goods on hand had increased as at 31 March 2013. The inventory held by us as at 31 March 2013 had all been utilized or sold as at the Latest Practicable Date.

Trade and other receivables analysis

The following table is a summary of our trade and other receivables and the trade receivables turnover days during the Track Record Period:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	6,939	36,529	45,124	49,531
Less: Provision for impairment	<u>(132)</u>	<u>(90)</u>	<u>(90)</u>	<u>(90)</u>
Trade receivables, net	6,807	36,439	45,034	49,441
Prepayments and deposits	467	2,379	17,158	35,928
Amounts due from related parties	5,181	9,730	2,912	2,790
Amount due from Controlling Shareholder	23,798	38,623	8,080	—
Other receivables	<u>2,413</u>	<u>741</u>	<u>3,937</u>	<u>1,140</u>
	<u><u>38,666</u></u>	<u><u>87,912</u></u>	<u><u>77,121</u></u>	<u><u>89,299</u></u>

Our trade receivables as at year/period end for both CMS and OBM customers are as follows:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
CMS	5,029	34,105	37,971	38,106
OBM	<u>1,910</u>	<u>2,424</u>	<u>7,153</u>	<u>11,425</u>
Total	<u><u>6,939</u></u>	<u><u>36,529</u></u>	<u><u>45,124</u></u>	<u><u>49,531</u></u>

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	Year ended 31 December			Three months ended 31 March
	2010	2011	2012	2013
	Average trade receivables turnover days <i>(note (1))</i>			
CMS	18	36	69	77
OBM	74	76	76	88

Note:

- (1) Average trade receivables turnover days equals average of the beginning and ending balance of trade receivables for the year/period divided by turnover for the year/period, and multiplied by 365 days (for the three years ended 31 December 2010, 2011 and 2012) or 90 days (for the three months ended 31 March 2013).

CMS trade receivable and turnover days

Our CMS trade receivables as at 31 December 2010 and 2011 amounted to approximately RMB5.03 million and approximately RMB34.11 million respectively. The significant increase was primarily due to the increase in the sales of approximately RMB30.00 million to Fayeshine and Ningbo Hiking in December 2011. The substantial increase in sales at the end of 2011 from Fayeshine was mainly due to sales order from US Company B as US Company B obtained two new customers that operate retail chains in the US.

Our CMS trade receivables increased by approximately 11.34% from approximately RMB34.11 million as at 31 December 2011 to approximately RMB37.97 million as at 31 December 2012. It then increased slightly by approximately 0.37% to approximately RMB38.11 million as at 31 March 2013. The increase was primarily due to the delay of the payment of approximately RMB7.34 million by US Company B.

Accordingly, our CMS trade receivable turnover days increased from 18 days for the year ended 31 December 2010 to 36 days for the year ended 31 December 2011, 69 days for the year ended 31 December 2012 and 77 days for the three months ended 31 March 2013.

Our CMS trade receivable of approximately RMB38.11 million had been fully settled as at the Latest Practicable Date.

OBM trade receivable and turnover days

Our OBM trade receivables amounted to approximately RMB1.91 million, RMB2.42 million, RMB7.15 million and RMB11.43 million as at 31 December 2010, 2011, 2012 and 31 March 2013. The increase in OBM trade receivable was in line with the increase in OBM sales, the increase in sales to our local OBM customers was as a result of the increase in the number of Distributors from 17 in 2011 to 97 in 2012.

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Our OBM trade receivable turnover days had remained stable during the Track Record Period. Our OBM trade receivable had been fully settled as at the Latest Practicable Date.

To minimize the risk of doubtful debts, we closely monitor and review the credit position of our customers. Overdue trade debts are reviewed by our Directors. Based on the aging of such debts, payment histories, trading records and other available information regarding the respective customers, we make provisions for doubtful receivables for amounts that is considered to be unrecoverable. The credit period granted to customers is normally between 0 to 180 days. The aging analysis of the trade receivables from the date of sales is as follows:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 3 months	4,983	35,894	32,143	37,446
3 to 6 months	254	176	8,803	7,816
6 to 12 months	106	391	4,081	4,156
Over 12 months	<u>1,596</u>	<u>68</u>	<u>97</u>	<u>113</u>
	<u><u>6,939</u></u>	<u><u>36,529</u></u>	<u><u>45,124</u></u>	<u><u>49,531</u></u>

As at 31 December 2010, 2011, 2012 and 31 March 2013, trade receivables of approximately RMB3.05 million, RMB4.17 million, RMB19.44 million and RMB31.76 million respectively were past due but not considered impaired. We did not hold any collateral over these balances. The aging analysis of these trade receivables which had been past due but not impaired are as follows:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	1,221	3,627	6,549	19,769
3 to 6 months	254	176	8,803	7,816
6 to 12 months	106	369	4,081	4,156
Over 12 months	<u>1,464</u>	<u>—</u>	<u>7</u>	<u>23</u>
	<u><u>3,045</u></u>	<u><u>4,172</u></u>	<u><u>19,440</u></u>	<u><u>31,764</u></u>

As at 31 December 2010, 2011, 2012 and 31 March 2013, trade receivables of approximately RMB0.13 million, RMB0.09 million, RMB0.09 million and RMB0.09 million respectively were impaired and provided for. Amount of approximately RMB0.04 million has been reversed as at 31 December 2011 due to the settlement by customers.

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Prepayments and deposits

The significant increase in prepayments and deposits from approximately RMB17.16 million as at 31 December 2012 to approximately RMB35.93 million as at 31 March 2013 was primarily due to the increase in the amount of deposit held at Zhejiang Lujia from RMB9.00 million as at 31 December 2012 to RMB28.00 million as at 31 March 2013. Under the terms of the 2013 price-locking agreement signed on 24 December 2012, a deposit of RMB28 million was required to be paid to Zhejiang Lujia. As such, a deposit of RMB9 million was paid in December 2012 and the remaining deposits of RMB16.00 million and RMB3.00 million were paid in January and March 2013, respectively.

The prepayments and deposits was approximately RMB0.47 million, RMB2.38 million and RMB17.16 million as at 31 December 2010, 2011 and 2012 respectively. Increase over the Track Record Period was mainly due to the increase in the number of new suppliers and the prepayment to such suppliers. In particular, a deposit of RMB9 million was made to Zhejiang Lujia after the 2013 price-locking agreement was signed on 24 December 2012. The deposit of RMB30.00 million made to Zhejiang Lujia in March 2012, as per the terms of the 2012 price-locking agreement, was fully utilized in 2012.

Amounts due from related parties

Yiwu Weiwei's trade receivable turnover days were 401 days, 339 days and 113 days for the three years ended 31 December 2010, 2011 and 2012 respectively. We granted comparatively long turnover days to Yiwu Weiwei for the years ended 31 December 2010 and 2011 as our OBM business was still in the early stage of development in these two years and therefore we had to leverage on the established distribution network of Yiwu Weiwei for expansion so as to enhance the market recognition of our OBM products. Further, the sales to Yiwu Weiwei had significantly increased in 2012 and therefore, we refrained from giving longer than 180 days credit period to Yiwu Weiwei. Meanwhile, the amount due from Yiwu Weiwei as at 31 March 2013 was approximately RMB2.79 million, which had been fully settled as at the Latest Practicable Date.

The amount due from Yiwu Weiwei and Mrs. Yu, the related parties, was approximately RMB2.91 million as at 31 December 2012 and approximately RMB9.73 million as at 31 December 2011. Such significant decrease was mainly due to the increase in settlement from Yiwu Weiwei.

The amount due from Yiwu Weiwei and Mrs. Yu was approximately RMB9.73 million as at 31 December 2011 and approximately RMB5.18 million as at December 2010. Such increase was mainly due to the increase in the domestic sales to Yiwu Weiwei, which is owned by the father of Mr. Yu and the increase of the loan to Mrs. Yu. The loan to Mrs. Yu had been settled in March 2012. The amounts due from related parties will be settled before the Listing.

Amount due from controlling shareholder

The amount due from controlling shareholder represented the amount due from Mr. Yu, which was approximately RMB23.80 million, RMB38.62 million and RMB8.08 million as at 31 December 2010, 2011 and 2012. No provision are held against these receivables. The amount due from Mr. Yu had been settled as at the Latest Practicable Date.

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Trade and other payables analysis

The following table sets forth the aging analysis of our trade and other payables, and trade payable turnover days for the Track Record Period:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	17,572	19,322	19,059	21,202
Notes payable	48,536	72,652	66,973	58,668
Advances from customers	1,888	3,453	8,044	8,932
Other tax payables	131	2,313	765	661
Accrued expenses	3,007	2,427	2,602	2,894
Amount due to a related party	1,521	7,532	—	—
Amount due to controlling shareholder	10,178	10,024	17,209	9,065
Other payables	544	664	311	418
	83,377	118,387	114,963	101,840
	Year ended 31 December			Three months ended 31 March
	2010	2011	2012	2013
Average trade payables turnover days (note (1))	72	41	40	44

Note:

- (1) Average trade payable turnover days equals average of the beginning and ending balance of trade payables for the year/period divided by cost of sales for the year/period, and multiplied by 365 days (for the three years ended 31 December 2010, 2011 and 2012) or 90 days (for the three months ended 31 March 2013).

Trade and note payables

Trade payables are amount payables to our suppliers for the purchase of raw materials. The note payables represented bank acceptance notes with maturity dates within six months. The credit period granted by our suppliers normally ranges from 0 to 90 days.

Our trade and note payables were approximately RMB79.87 million as at 31 March 2013 and approximately RMB86.03 million as at 31 December 2012. Such decrease was mainly due to the decrease in note payable utilized for the first quarter of 2013 as it is traditionally on off-season for us.

Our trade and note payables were approximately RMB86.03 million as at 31 December 2012 and approximately RMB91.97 million as at 31 December 2011. Such decrease was mainly due to the decrease in note payables due to the repayment of note payables as it fall due near year end.

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Our trade and note payables as at 31 December 2011 and 2010 amounted to approximately RMB91.97 million and approximately RMB66.11 million respectively. The significant increase was primarily due to the increase in purchase of raw materials to meet the rising demand of our CMS products.

The turnover days were in line with the credit terms offered to us by our suppliers which were generally 0 to 90 days. The trade payable turnover days decreased from 72 days for the year ended 31 December 2010 to 41 days for the year ended 31 December 2011, which was mainly due to purchases from suppliers with shorter credit period and earlier payment made to our suppliers of flavour and fragrances as a result of the increasing competition for the purchases of quality flavour and fragrances for the year ended 31 December 2011. Trade payable turnover days had kept stable at 41 days for the year ended 31 December 2011, 40 days for the year ended 31 December 2012 and 44 days for the three months ended 31 March 2013.

The following table sets forth the aging analysis with respect to our trade payables as at the date indicated:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 3 months	8,984	13,663	15,719	17,618
3 to 6 months	2,337	2,486	2,391	2,694
6 to 12 months	2,158	2,421	75	686
Over 12 months	4,093	752	874	204
	17,572	19,322	19,059	21,202

Subsequent settlement of trade payable as at the Latest Practicable Date was approximately RMB20.49 million.

Advances from customers

The advances from customers was approximately RMB1.89 million, RMB3.45 million, RMB8.04 million and RMB8.93 million as at 31 December 2010, 2011, 2012 and 31 March 2013. The amount of advances from customers reflected the level of settlements made and deposit paid for purchases of certain customers.

Amount due to related party

The amount due to Zhejiang Lujia, the related party, was approximately RMB7.53 million as at 31 December 2011 and approximately RMB1.52 million as at 31 December 2010. Such increase was due to the increase in the purchase of aerosol cans from Zhejiang Lujia. There was no amount due to any related party as at 31 December 2012 and 31 March 2013 as Zhejiang Lujia was no longer a related party to us as at 31 December 2012.

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Amount due to controlling shareholder

The amount due to a shareholder represented the amount due to Mr. Yu, which was approximately RMB10.18 million, RMB10.02 million, RMB17.21 million and RMB9.07 million as at 31 December 2010, 2011, 2012 and 31 March 2013. The amount will be settled upon the Listing.

WORKING CAPITAL

Taking into account the financial resources available to us, including the internally generated funds, the present available banking facilities, and the estimated net proceeds of the Share Offer, our Directors believe that we have sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this prospectus.

SELECTED FINANCIAL RATIOS DISCUSSION

The following table sets certain financial ratios as at the dates indicated:

	As at 31 December			As at
	2010	2011	2012	31 March 2013
Current ratio ⁽¹⁾	1.04	1.20	1.38	1.41
Quick ratio ⁽²⁾	0.81	1.02	1.17	1.12
Return on equity ⁽³⁾	39.96%	37.69%	29.01%	N/A
Return on total asset ⁽⁴⁾	11.56%	13.91%	11.86%	N/A
Gearing ratio ⁽⁵⁾	101%	102%	72%	60%
Interest coverage ⁽⁶⁾	946	N/A	1,348	N/A

Notes:

- (1) Current ratio is calculated by dividing the total current assets by the total current liabilities.
- (2) Quick ratio is calculated by dividing the total current assets minus inventory by the total current liabilities.
- (3) Net return on equity equals profit attributable to our owners for the year divided by the average of the beginning and ending balance of equity attributable to our owners for the year. As such, return on equity for the three months ended 31 March 2013 was incomparable to that for the three years ended 31 December 2010, 2011 and 2012.
- (4) Return on total assets equal to profits for the year divided by the average of the beginning and ending balance of total assets for the full financial year. As such, return on assets for the three months ended 31 March 2013 was incomparable to that for the three years ended 31 December 2010, 2011 and 2012.
- (5) Gearing ratio is calculated by dividing total debt by the total equity.
- (6) Interest coverage is calculated by dividing profit before interest and tax by the total interest expense incurred. No interest expense was noted for the year ended 31 December 2011 and for the three months ended 31 March 2013.

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Current Ratio

As at 31 December 2010, 2011, 2012 and 31 March 2013, our current ratio was approximately 1.04, 1.20, 1.38 and 1.41 respectively.

For the two years ended 31 December 2010 and 2011, the current ratio increased from 1.04 to 1.20 as a result of the increase of the trade receivable from approximately RMB6.81 million in 2010 to approximately RMB36.44 million in 2011, which was due to the increase of approximately RMB30.00 million of the sales of CMS products to Fayeshine in December 2011.

For the two years ended 31 December 2011 and 2012, the current ratio increased from 1.20 to 1.38 as result of the increase of trade receivable from approximately RMB36.44 million in 2011 to approximately RMB45.03 million in 2012, which was due to (i) the delay of the payment of approximately RMB7.34 million by US Company B; and (ii) the increase of the cash balance from approximately RMB4.27 million to approximately RMB36.28 million.

There was no material movement in the current ratio as at 31 December 2012 and 31 March 2013.

Quick Ratio

As at 31 December 2010, 2011, 2012 and 31 March 2013, our quick ratio was approximately 0.81, 1.02, 1.17 and 1.12 respectively. Except for the decrease in quick ratio as at 31 March 2013 which was due to the increase in inventory, the reason for the changes in quick ratio over the Track Record Period was in line with the changes in current ratio as mentioned above.

Return on equity

As at 31 December 2010, 2011 and 2012, our return on equity was approximately 39.96%, 37.69% and 29.01% respectively. The decrease was mainly due to the continue increase in equity as the Company did not declare any dividend during the Track Record Period.

Return on total asset

As at 31 December 2010, 2011 and 2012, our return on total asset was approximately 11.56%, 13.91% and 11.86% respectively.

For the two years ended 31 December 2010 and 2011, the return on total asset increased from approximately 11.56% for the year ended 31 December 2010 to approximately 13.91% for the year ended 31 December 2011 as a result of the increase of our profitability, which was due to the increasing orders from US Company B in 2011.

For the two years ended 31 December 2011 and 2012, the return on total asset decreased from approximately 13.91% to approximately 11.86% as a result of the increase of the total asset, which was due to the increase of approximately RMB32 million of cash and cash equivalent. The increase in the balance of cash and cash equivalent for the year ended 31 December 2012 was due to the repayment of approximately RMB30.54 million from Mr. Yu.

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Gearing ratio

As at 31 December 2010, 2011, 2012 and 31 March 2013, our gearing ratio was 101%, 102%, 72% and 60% respectively.

The gearing ratio was stable for the two years ended 31 December 2010 and 2011.

For the two years ended 31 December 2011 and 2012, the gearing ratio decreased from 102% to 72% as a result of the net repayment of approximately RMB5.68 million of note payable to the bank.

The decrease in gearing ratio from 72% as at 31 December 2012 to 60% as at 31 March 2013 was due to the decrease in utilisation of notes payable. As the first quarter is traditionally on off-season therefore lesser purchases is required by us.

Interest coverage

As at 31 December 2010 and 2012, our interest coverage was approximately 946 and 1,348. The increase was due to our improving result during the Track Record Period. No interest expense was incurred by us for the year ended 31 December 2011 and for the three months ended 31 March 2013.

MARKET RISK

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for us. Our income or the values of our holding of financial instruments are affected by changes in the commodity price of raw materials, foreign exchange rate and interest rate. We seek to manage to control market risk through our regular operating and financial activities and conduct such activities within the guidelines set by the Board.

Foreign Currency Risk

We mainly operates in the PRC with most of the transactions settled in RMB. The majority of our assets and liabilities were denominated in RMB. We are subject to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than 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.

Interest Rate Risk

We do not account for any fixed rate financial assets and liabilities at fair value through our income statement. A change in interest rate at the reporting dates would not affect our profit or loss.

Liquidity Risk

Our policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirement.

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Credit Risk

The carrying amount of the trade receivables represents our maximum exposure to credit risk in relation to its financial assets. We minimize our exposure to credit risk by only dealing with counterparties with acceptable credit rating.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, we do not offer credit terms without the specific approval of the general manager.

RELATED PARTY TRANSACTIONS

The following table sets forth transactions with related parties were undertaken by us during for the Track Record Period:

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Sales of goods to					
Yiwu Weiwei	3,822	6,223	15,221	7,124	195
Purchases of raw material					
from Zhejiang Lujia	31,468	61,823	46,484	13,326	—
Advance to Mr. Yu	21,033	25,194	—	—	64
Repayment by Mr. Yu	16,994	10,215	37,728	36,311	—

The sales of goods to Yiwu Weiwei and purchases of raw material from Zhejiang Lujia were carried out in the normal course of business and at terms mutually negotiated between the respective related companies and us.

Details of related party transactions are set out in note 28 of the Accountant's Report in Appendix I to this prospectus. Our Directors confirm that sales of goods to Yiwu Weiwei and purchases of raw material from Zhejiang Lujia were conducted on normal commercial terms that were better to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole. The balance of amount with Mr. Yu will be settled upon listing.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any material off-balance sheet transactions except as disclosed in "Contractual and Capital Commitments".

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma adjusted net tangible assets of our Group, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 31 March 2013. This unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position.

	Audited combined net tangible assets attributable to owners of the Company as at 31 March 2013	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets attributable to owners of the Company as at 31 March 2013	Unaudited pro forma adjusted net tangible assets per share	Unaudited pro forma adjusted net tangible assets per share
	RMB'000	RMB'000	RMB'000	RMB	HK\$
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	
Based on the Offer					
Price of HK\$0.72					
per share	<u>96,267</u>	<u>50,588</u>	<u>146,855</u>	<u>0.37</u>	<u>0.46</u>
Based on the Offer					
Price of HK\$0.89					
per share	<u>96,267</u>	<u>63,780</u>	<u>160,047</u>	<u>0.40</u>	<u>0.50</u>

Notes:

- (1) The audited combined net tangible assets attributable to owners of our Company as of 31 March 2013 is based on our audited combined net assets attributable to our owners as of 31 March 2013 of approximately RMB97.28 million with an adjustment for the intangible assets as at 31 March 2013 of approximately RMB1.01 million.
- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.72 per share and HK\$0.89 per share, being low and high end of the indicative Offer Price range, after deduction of the underwriting fees and related expenses (excluding approximately HK\$8.90 million listing expenses and approximately HK\$2.84 million share issuance costs which have been accounted for prior to 31 March 2013) payable by us and taking no account of any shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options granted or to be granted under the Share Option Schemes or any shares which may be allotted and issued or repurchased by us pursuant to the General Mandate. For the purpose of the estimated net proceeds from the share offer, the translation of RMB into HK\$ was at the rate of RMB1.00 to HK\$1.25.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 March 2013 but takes no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option or any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by us.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2013.

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DIVIDEND AND DIVIDEND POLICY

Our Directors confirmed that no dividend was declared or paid by us for the three years ended 31 December 2010, 2011 and 2012.

We currently do not have any plans to distribute regular dividends immediately after the Listing, although this is subject to change.

DISTRIBUTABLE RESERVES

As at 31 March 2013, we did not have any distributable reserves available for distribution to shareholders.

RECONCILIATION OF APPRAISED PROPERTY VALUES WITH NET BOOK VALUES

Stirling Appraisals Limited (“**Stirling**”), an independent property valuer, has valued our property interests as at 31 March 2013. The text of the letter, summary of valuation and the summary valuation certificates are set out in Appendix III to this Prospectus.

The table below shows the reconciliation of the net book value of the property interests from the audited financial statements as at 31 March 2013 to the valuation of the property interests as at 30 June 2013:

	<u>RMB'000</u>
Net book value as at 31 March 2013 (<i>note (1)</i>)	30,866
Movements for the 3 months ended 30 June 2013	
— Depreciation and amortisation	<u>(287)</u>
Net book value as at 30 June 2013	30,579
Net valuation surplus	<u>27,379</u>
Valuation as at 30 June 2013 (<i>note (2)</i>)	<u><u>57,958</u></u>

Notes:

- (1) The net book value represents the sum of the closing net book amount of prepaid lease payments and buildings as at 31 March 2013 as stated in the Accountant's Report set out in Appendix I to this prospectus.
- (2) The figures represent the reference value adopted by the management in respect of those properties without relevant title documents and such reference value is arrived at with reference to the property valuation report which set forth in Appendix III to this prospectus. The reference value is based on assumptions that such properties can be freely transferred in the open market.

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NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since 31 March 2013 (being the date of our latest audited combined statements of financial results, as set out in the Accountant's Report in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Listing Rules 13.13 to 13.19, had they been required to comply with Listing Rules 13.13 to 13.19.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Business Strategies” in this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Share Offer (before exercising the Offer Size Adjustment Option, after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming an Offer Price of HK\$0.81 per Share, being the mid-point of the stated range of the Offer Price) will be approximately HK\$60.23 million. We currently intend to apply such net proceeds in the following manner:

- Approximately 54%, which represent approximately HK\$32.67 million (approximately RMB26.14 million), conditional upon obtaining the necessary approvals, to increase our production capacity progressively by financing the first phase of constructing new production facility. We plan to construct the new production plant with warehouse. The construction of new production plant is expected to commence in the first half of 2014. Upon completion of the construction of new production plant, the maximum annual production capacity that can be supported by the new production plant is expected to be approximately 100 million cans with 6 fully automatic aerosol filling lines, 1 fully automatic high-speed aerosol filling production line, and 2 fully automatic laundry liquid filling machines. We have not secured any banking facilities for the development of these new production plant.
- Approximately 24%, which represent approximately HK\$14.32 million (approximately RMB11.46 million), to be used for the expansion of the domestic distribution channel. We plan to increase the number of domestic Distributors to approximately 330 and 360 by the end of 2014 and 2015, respectively. We also plan to expand our sales teams and increase our penetration in the second-tier and third-tier cities by the end of 2015 in eastern and central China, including Zhejiang, Anhui and Hubei.
- Approximately 12%, which represent approximately HK\$7.22 million (approximately RMB5.78 million), to promote the brand names of “Green Island”, “Ludao” (“綠島”), “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”) by increasing our marketing and advertising efforts. We plan to launch the advertising plan 3 months after the Listing which includes television advertising, outdoor advertising promotion and multi-media displays in shopping mall in order to promote the brand names in eastern and central China.
- Approximately 10%, which represent approximately HK\$6.02 million (approximately RMB4.82 million), to fund the working capital requirement to be arisen as we plan to increase the production volume and scale of our production facility.

In the event that the Offer Price is set at the high-end and the low-end of the proposed Offer Price range, we will receive net proceeds of approximately HK\$67.99 million and HK\$51.50 million, after deducting related expenses, respectively. We will use the net proceeds based on the percentages disclosed above, regardless of whether our Shares are priced at the upper end or lower end of the proposed Offer Price.

FUTURE PLANS AND USE OF PROCEEDS

The additional net proceeds that we would receive upon exercise of the Offer Size Adjustment Option in full are approximately HK\$11.79 million, after deducting related expenses, assuming an Offer Price of HK\$0.81 per Share, being the mid-point of the Offer Price range or approximately HK\$10.48 million, after deducting related expenses, assuming an Offer Price of HK\$0.72 per Share, being the low-end of the Offer Price range or approximately HK\$12.95 million, after deducting related expenses, assuming an Offer Price of HK\$0.89 per share, being the high-end of the Offer Price range. In the event the Offer Size Adjustment Option is exercised in full, we will adjust our allocation of the net proceeds in the same proportion as set out above.

To the extent that our net proceeds are not immediately used for the above purposes we intend to invest our net proceeds in short-term, interest-bearing debt instruments or bank deposits.

UNDERWRITING

PUBLIC OFFER UNDERWRITER

Essence International Securities (Hong Kong) Limited

PLACING UNDERWRITER

Essence International Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Public Offer Underwriting Agreement (including but not limited to the Offer Price being agreed upon between the Lead Manager and our Company), the Public Offer Underwriter has agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Public Offer on and subject to the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement. If the Lead Manager is unable to reach an agreement with our Company on the Offer Price at or before 6:00 p.m. on Tuesday, 8 October 2013, the Share Offer will lapse.

Our Company intends to grant to the Placing Underwriter the Offer Size Adjustment Option, exercisable by the Lead Manager (in the capacity as the Placing Underwriter as well), to require our Company to issue up to an aggregate of 15,000,000 additional Shares, representing 15% of the Shares initially offered under the Share Offer, if any.

The Offer Size Adjustment Option is exercisable by the Lead Manager (in the capacity as the Placing Underwriter as well) at any time during the period from the date of this prospectus to: (i) the second business day prior to the Listing Date (that is on Wednesday, 9 October 2013); or (ii) within 30 days from the date of this prospectus, whichever is earlier, in writing, to require our Company to allot and issue up to 15,000,000 additional Shares at the Offer Price, representing 15% of the total number of Shares initially available for subscription under the Share Offer. Please refer to “Structure of the Share Offer — Offer Size Adjustment Option” of this prospectus for further details.

The Public Offer Underwriting Agreement is conditional upon and subject to the Placing Underwriting Agreement having been signed and becoming unconditional, and have not been terminated in accordance with its terms.

UNDERWRITING

Grounds for termination

The obligations of the Public Offer Underwriter to subscribe or procure subscribers for the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (A) there develops, occurs, exists or comes into force:
 - (i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, China, the Cayman Islands, the United States, Canada, any member of the European Union, Japan, Singapore or any other jurisdiction where any member of the Group was incorporated or has a business presence (each a “**Relevant Jurisdiction**”); or
 - (ii) any change or development involving a prospective change or development, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation to, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets), or any monetary or trading settlement system or matters and/or disaster (including, without limitation a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or
 - (iii) any change or development in the conditions of local, national or international equity securities or other financial markets; or
 - (iv) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, epidemic, outbreak of an infectious disease, civil commotion, acts of war, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is declared), acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency or war, riot, public disorder, economic sanctions, acts of God, accident or interruption or delay in transportation in or affecting any Relevant Jurisdiction; or
 - (v) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
 - (vi) (A) any moratorium, suspension, limitation or restriction on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Tokyo Stock Exchange; or (B) any

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general moratorium on commercial banking activities in New York, London, Cayman Islands, Hong Kong, Japan or China declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or

- (vii) any change or development involving a prospective change or development in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (viii) any change or development involving a prospective change on the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of the Group; or
- (ix) any executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the commencement by any regulatory body or organisation of any action against any executive Director or the Group or an announcement by any regulatory body or organisation that it intends to take any such action; or
- (xi) a contravention by any member of the Group of the Companies Ordinance or Companies Law or any of the Listing Rules; or
- (xii) other than with the approval of the Lead Manager, the issue or requirement to issue by the Company of a supplementary prospectus, Application Forms, preliminary or final offering circular pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole opinion of the Lead Manager, materially adverse to the marketing for or implementation of the Share Offer; or
- (xiii) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group,

and which, in any such case and in the sole opinion of the Lead Manager (in the capacity as the Public Offer Underwriter as well),

- (i) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the general affairs or the business or financial or trading or other condition or prospects of the Company or its subsidiaries; or

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- (ii) has or may have or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of Shares being applied for or accepted or the distribution of Shares; or
 - (iii) makes or will or is likely to make it impracticable, inexpedient or inadvisable to proceed with or to market the Public Offer and/or the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus and/or for any material part of the Public Offer Underwriting Agreement to be performed or implemented as envisaged; or
 - (iv) has or will have the effect of making any material part of the Public Offer Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Public Offer or pursuant to the underwriting thereof,
- (B) there has come to the notice of the Lead Manager:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by our Company in connection with the Public Offer (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading in any material respect, or any forecasts, estimates, expression of opinion, intention or expectation expressed in such documents are not, in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
 - (iii) any of the Warranties (as defined in the Public Offer Underwriting Agreement) given by the Covenantors (as defined in the Public Offer Underwriting Agreement) in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement is (or might when repeated be) untrue or misleading or inaccurate in any material respect; or
 - (iv) any event, act or omission which gives or may give rise to any liability of the Covenantors (as defined in the Public Offer Underwriting Agreement) or any other indemnifying party pursuant to the indemnities given by the Covenantors under the Public Offer Underwriting Agreement; or
 - (v) any breach of any of the obligations of the Covenantors (as defined in the Public Offer Underwriting Agreement) or any other indemnifying party under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement, as applicable; or
 - (vi) any material adverse change or prospective material adverse change in the assets, liabilities, conditions, profits, losses, business, properties, results of operations, in the financial or trading position or prospects or performance of our Company or our subsidiaries; or

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- (vii) any material litigation or claim being threatened or instigated against the Company or any of its subsidiaries or the Covenantors (as defined in the Public Offer Underwriting Agreement) or any Director; or
- (viii) any of the experts named in the paragraph headed “Other Information — Qualification of experts” of Appendix V of this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it, respectively appears; or
- (ix) approval for the listing of and permission to deal in the Shares to be issued or sold (including any additional Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option) on the Hong Kong Stock Exchange is refused or not granted, other than subject to customary conditions, on or before the listing approval date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (x) the Company withdraws the Public Offer Documents (as defined in the Public Offer Underwriting Agreement) (and any other documents used in connection with the contemplated subscription and sale of the Shares) or the Share Offer,

then the Lead Manager may, in its sole discretion and upon giving notice to the Company, terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings pursuant to the Listing Rules and the Public Offer Underwriting Agreement

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that our Company will not issue any further Shares or securities convertible into the equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or the securities will be completed within six months from the Listing Date), except under the Share Offer (including the exercise of the Offer Size Adjustment Option) or the Capitalisation Issue or for the circumstances provided under Rule 10.08(1) to 10.08(4) of the Listing Rules.

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Our Company has undertaken to each of the Lead Manager (in the capacity as the Public Offer Underwriter as well) and the Sponsor that except pursuant to the Share Offer (including pursuant to the Offer Size Adjustment Option), the Capitalisation Issue and any Share Option Scheme of any members of our Group, at any time after the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date, our Company will not without the Lead Manager's prior written consent and unless in compliance with the requirements of the Listing Rules:

- (i) offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of its share capital or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital;
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital; or
- (iii) offer or agree to enter into, any transaction with the same economic effect described in limb (i) or (ii) above, or agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i), (ii) or (iii) above whether any of the foregoing transactions described in limb (i) or (ii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise,

and our Company further agrees that, in the event of an issue or disposal of any Shares or any interest therein after the date falling six months from the Listing Date, our Company will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

Nothing in the above undertakings shall (a) restrict our Company's ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of its subsidiaries provided that any such sale, or any enforcement of such pledge, mortgage or charge will not result in such subsidiary ceasing to be a subsidiary (as defined in the Companies Ordinance) of our Company within six months after the Listing Date; or (b) restrict any of our Company's subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any such issue will not result in that subsidiary ceasing to be a subsidiary (as defined in the Companies Ordinance) of our Company within six months after the Listing Date.

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Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange that save as pursuant to the note (2) to Rule 10.07(2) of the Listing Rules, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) he or it will not, at any time in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in respect of which he or it is shown by this prospectus to be the beneficial owner;
- (b) he or it will not, at any time during the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it will then cease to be the Controlling Shareholder.

Each of the Controlling Shareholders has further undertaken to the Stock Exchange that he or it will, within the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

- (i) when he or it pledges or charges any Shares or other securities or interests in any securities of the Company beneficially owned by him or it in favor of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and
- (ii) when he or it receives indications, either verbal or written, from any pledge or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform our Company of such indications.

Our Company will also inform the Stock Exchange as soon as it has been informed of the matters mentioned in (i) and (ii) above by the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

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Pursuant to the Public Offer Underwriting Agreement, each of the Controlling Shareholders has undertaken to each of our Company, the Bookrunner, the Lead Manager (in the capacity as the Public Offer Underwriter as well) and the Sponsor or its affiliates acting on its behalf in connection with the Share Offer that save as pursuant to the Share Offer or Note (2) to Rule 10.07(2) of the Listing Rules, without the prior written consent of the Lead Manager:

- (a) he or it will not (i) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (ii) during the period of six months commencing on the date on which the First Six-month Period expires, dispose of or, enter into any agreements of the foregoing transactions in limb (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be one of the controlling shareholders of our Company as defined in the Listing Rules;
- (b) at any time after the date of the Public Offer Underwriting Agreement up to and including the date falling six months from the Listing Date, he or it will not
 - (i) offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any share capital of our Company or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital;
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital of our Company; or
 - (iii) offer or agree to enter into, any transaction with the same economic effect as any transaction described in limb (i) or (ii) above; or agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i), (ii) or (iii) above, whether any of the foregoing transactions described in limb (i) or (ii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise,

and each of the Controlling Shareholders further agrees that, in the event of an issue or disposal of any Shares or any interest therein after the date falling six months from Listing Date, he or it will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

UNDERWRITING

Each of the controlling shareholders has further undertaken to each of our Company, the Bookrunner, the Lead Manager (in the capacity as the Public Offer Underwriter as well) and the Sponsor that he or it will, at any time within the period commencing on the date of the Public Offer Underwriting Agreement and ending on the date which is 12 months after the Listing Date:

- (i) upon any pledge or charge in favor of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any share capital or other securities of the Company or any interests therein beneficially owned by him or it for a bona fide commercial loan, immediately inform the Company and the Lead Manager in writing of such pledge or charge together with the number of Shares or other securities so pledged or charged; and
- (ii) upon any indication received by him or it, either verbal or written, from any pledge or chargee that any of the pledged or charged Shares or securities or interests in the Shares or other securities of the Company will be disposed of, immediately inform our Company and the Lead Manager in writing of such indications.

Our Company has further agreed and undertaken to the Bookrunner, the Lead Manager (in the capacity as the Public Offer Underwriter as well) and the Sponsor, that, upon receiving such information in writing from the controlling shareholders, our Company shall, for so long as required by law and the Listing Rules, as soon as practicable, notify the Stock Exchange and make a public disclosure of such information by way of an announcement in accordance with the Listing Rules.

Indemnity

Each of our Company, the executive Directors and the Controlling Shareholders jointly and severally undertakes to the Lead Manager (in the capacity as the Public Offer Underwriter as well) and the Sponsor to indemnify and hold harmless the Lead Manager (in the capacity as the Public Offer Underwriter as well) and the Sponsor, for themselves and on trust for each of their respective subsidiaries and affiliates and any of their respective representatives, partners directors, officers, employees, assignees and agents (collectively, the “**Indemnified Parties**” and individually, an “**Indemnified Party**”) (on an after-tax basis) against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company of the terms and conditions of the Public Offer provided that such indemnity shall not be available to an Indemnified Party to the extent that such losses have been solely caused by the gross negligence, wilful default or fraud on the part of the Indemnified Party.

Total commission and expenses

The Public Offer Underwriter will receive an underwriting commission of 3.0% on the Offer Price of the Public Offer Shares initially offered under the Public Offer, out of which it will pay any sub-underwriting commission. For unsubscribed Public Offer Shares reallocated to the Placing, our Company will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Lead Manager.

UNDERWRITING

The aggregate commissions and incentive fees, together with listing fees, the SFC transaction levy and the Stock Exchange trading fee in respect of the new Shares offered by our Company, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to amount to approximately HK\$20.77 million (assuming an Offer Price of HK\$0.81, which is the midpoint of the indicative Offer Price range of HK\$0.72 to HK\$0.89 and that the Offer Size Adjustment Option is not exercised) in total and are payable by our Company.

Public Offer Underwriter's interests in our Company

Except as disclosed below and other than its obligations under the Public Offer Underwriting Agreement, as at the Latest Practicable Date, the Public Offer Underwriter is not interested directly or indirectly in any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in our Company or any other member of our Group.

Placing

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Lead Manager (in the capacity as the Placing Underwriter as well) on the Price Determination Date. Under the Placing Underwriting Agreement, the Placing Underwriter would, subject to certain conditions, agree to procure subscribers for or purchasers for, or failing which to subscribe for or purchase itself, its respective applicable proportions of the Placing Shares being offered pursuant to the Placing which are not taken up under the Placing.

Under the Placing Underwriting Agreement, our Company will grant to the Lead Manager the Offer Size Adjustment Option, exercisable by the Lead Manager (in the capacity as the Placing Underwriter as well) at any time during the period from the date of this prospectus to: (i) the second business day prior to the Listing Date (that is on Wednesday, 9 October 2013); or (ii) the 30th day from the date of this prospectus, whichever is earlier, in writing, to require our Company to issue up to an aggregate of 15,000,000 additional shares, representing in aggregate 15% of the Offer Shares initially available under the Share Offer.

STRUCTURE OF THE SHARE OFFER

PRICING AND ALLOCATION

Offer Price range

The Offer Price will be not more than HK\$0.89 per Offer Share and is expected to be not less than HK\$0.72 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

PRICE PAYABLE ON APPLICATION

Applicants for Public Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.89 (plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee) for each Public Offer Share. If the Offer Price is less than HK\$0.89, appropriate refund payments (including 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee attributable to the surplus application monies) will be made to the applicants whose applications are successful. Please refer to the section headed “How to apply for the Public Offer Shares — 12. Refund of application monies” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Placing Underwriter is soliciting from prospective investors indications of interest in acquiring the Shares under the Placing. Prospective investors will be required to specify the number of the Placing Shares which they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, Friday, 4 October 2013.

The Offer Price is expected to be fixed by agreement between the Lead Manager and our Company on the Price Determination Date, when market demand for the Public Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 4 October 2013.

If, for any reason, our Company and the Lead Manager are unable to reach agreement on the Offer Price on or before 6:00 p.m. (Hong Kong time) on Tuesday, 8 October 2013, the Share Offer will not proceed.

The Offer Price will not be more than HK\$0.89 per Share and is expected to be not less than HK\$0.72 per Share unless otherwise announced.

The net proceeds from the Share Offer, assuming the Offer Size Adjustment Option is not exercised, are estimated to be approximately HK\$60.23 million based on the Offer Price of HK\$0.81 per Share, being the mid-point of the stated range of the Offer Price.

STRUCTURE OF THE SHARE OFFER

REDUCTION IN OFFER PRICE RANGE

If, based on the level of interest expressed by prospective institutional, professional and individual investors during the book-building process, the Lead Manager considers it appropriate and with the prior written consent of our Company, the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer.

In this case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published in *The Standard* (in English) and *Hong Kong Economic Journal* (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.ludaocn.com notice of the reduction in the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the indicative Offer Price range is so reduced.

ALLOCATION

The Shares to be offered under the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the sole discretion of the Lead Manager.

Allocation of the Offer Shares pursuant to the Placing will be solely determined by the Lead Manager and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional and individual investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the Offer Shares to the investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by the applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

STRUCTURE OF THE SHARE OFFER

ANNOUNCEMENT OF OFFER PRICE AND BASIS OF ALLOCATIONS

The final Offer Price, level of applications in the Public Offer, the level of indications of interest in the Placing, and the basis of allocations of the Public Offer Shares are expected to be announced on 10 October 2013 in *The Standard* (in English), *Hong Kong Economic Journal* (in Chinese), the website of the Company at www.ludaocn.com and the website of the Stock Exchange at www.hkexnews.hk.

Results of allocations in the Public Offer including the Hong Kong Identity Card/Passport/Hong Kong Business Registration Numbers of the successful applicants and the number of Public Offer Shares successfully applied for will be available through a variety of channels as described in the section headed “How to apply for the Public Offer Shares — 10. Publication of results” in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer, the Capitalisation Issue and Shares which fall to be allotted and issued upon the exercise of the Offer Size Adjustment Option or the share options which may be granted under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the Listing Date (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. Underwriting Agreements

The obligations of the Underwriter under the Underwriting Agreements becoming unconditional. Details of the Underwriting Agreements and grounds for termination are set out in the section headed “Underwriting”. If these conditions are not fulfilled on or before the time and date specified in the Underwriting Agreements or such later date as the Lead Manager may agree with our Company, the Share Offer will lapse and your application money will be refunded to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE PUBLIC OFFER

Our Company is initially offering 10,000,000 Offer Shares, representing 10% of the 100,000,000 Offer Shares initially available under the Share Offer, for subscription by the public in Hong Kong at the Offer Price.

STRUCTURE OF THE SHARE OFFER

The allocation of Offer Shares between the Public Offer and the Placing is subject to the following adjustments:

- if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the number of Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available under the Public Offer will be 30,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Share Offer;
- if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the number of Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of Offer Shares available under the Public Offer will be 40,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Share Offer; and
- if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more of the number of Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to be reallocated to the Public Offer from the Placing will be increased, so that the total number of Offer Shares available under the Public Offer will be 50,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Share Offer.

Subject to the above, the Lead Manager has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing or all or any unsubscribed Placing Shares to the Public Offer.

Each applicant under the Public Offer will be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Placing Shares, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue or he or she has been or will be placed or allocated Offer Shares under the Placing.

Our Company, the Directors and the Public Offer Underwriter will take reasonable steps to identify and reject applications under the Public Offer from the investors who have received Offer Shares under the Placing, and to identify and reject indications of interest in the Placing from the investors who have received Offer Shares under the Public Offer.

The Lead Manager may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Lead Manager so as to allow them to identify the relevant application under the Public Offer and to ensure that it is excluded from any application for Offer Shares under the Public Offer.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

STRUCTURE OF THE SHARE OFFER

THE PLACING

The Placing will consist of initially 90,000,000 Shares, representing 90% of the total number of Offer Shares initially available under the Share Offer which will be offered by our Company outside of the U.S. in reliance on Regulation S under the U.S. Securities Act, including to professional, institutional and individual investors. Our Company is expected to grant to the Lead Manager the Offer Size Adjustment Option, exercisable by the Lead Manager (in the capacity as the Placing Underwriter as well) at any time during the period from the date of this prospectus to: (i) the second business day prior to the Listing Date (that is on Wednesday, 9 October 2013); or (ii) the 30th day from the date of this prospectus, whichever is earlier, in writing, to require our Company to issue up to an aggregate of 15,000,000 additional Shares, representing in aggregate 15% of the Offer Shares initially available under the Share Offer. These Shares will be issued or sold at the same price per Offer Share under the Placing, among other things, if any.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their licensed securities dealers or other professional advisers for details of the settlement arrangements as such arrangements may affect their rights and interests.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. on Friday, 11 October 2013, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 11 October 2013. The Shares will be traded in board lots of 4,000 Shares. The stock code of the Shares is 2023.

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Placing Underwriting Agreement, our Company will grant to the Lead Manager the Offer Size Adjustment Option, which is exercisable by the Lead Manager (in the capacity as the Placing Underwriter as well) at any time during the period from the date of this prospectus to: (i) the second business day prior to the Listing Date (that is on Wednesday, 9 October 2013) or (ii) the 30th day from the date of this prospectus, whichever is earlier, in writing, to require our Company to allot and issue up to 15,000,000 additional Shares at the Offer Price, representing 15% of the total number of Shares initially available for subscription under the Share Offer. Any such additional Shares may be issued to cover any excess demand in the Share Offer at the absolute discretion of the Lead Manager.

STRUCTURE OF THE SHARE OFFER

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Lead Manager to meet any excess demand in the Share Offer. The Offer Size Adjustment Option will not be associated with any price stabilisation activities of the Shares in the secondary market after the listing of the Shares on the Stock Exchange and will not be subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong). No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Share Offer which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

Our Company will disclose in its allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. The allotment results announcement will be published on the Stock Exchange website at www.hkexnews.hk and our Company's website at www.ludaocn.com.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- apply electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Lead Manager and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (other than qualified domestic institutional investors).

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company, the Sponsor and the Lead Manager may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any our subsidiaries;
- an eligible Director;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 September 2013 to 12:00 noon on Friday, 4 October 2013 from:

- (i) the following office of the Bookrunner:

Essence International Securities (Hong Kong) Limited	39th Floor, One Exchange Square, Central, Hong Kong
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- (ii) any of the following branches of The Bank of East Asia, Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Main Branch	10 Des Voeux Road Central, HK
	Causeway Bay Branch	46 Yee Wo Street
	Wanchai Branch	Shop A–C, G/F, Easey Commercial Building, 253–261 Hennessy Road, Wanchai
Kowloon	Mongkok Branch	638–640 Nathan Road
	East Tsim Sha Tsui Branch	Shop G3–G5, G/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui
New Territories	Metro City Plaza Branch	Shop 243, Level 2, Metro City Plaza I, Tseung Kwan O

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 September 2013 until 12:00 noon on Friday, 4 October 2013 from the Depository Counter of HKSCC at 2/F., Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "The Bank of East Asia (Nominees) Limited — China Ludao Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Monday, 30 September 2013	—	9:00 a.m. to 5:00 p.m.
Wednesday, 2 October 2013	—	9:00 a.m. to 5:00 p.m.
Thursday, 3 October 2013	—	9:00 a.m. to 5:00 p.m.
Friday, 4 October 2013	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 4 October 2013, the last application day or such later time as described in "Effect of Bad Weather Conditions on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Sponsor, the Bookrunner, the Lead Manager and/or the Underwriter (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Memorandum and Articles of Association of our Company;
- (ii) agree to comply with the Hong Kong Companies Ordinance, the Memorandum and Articles of Association of our Company;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, the Hong Kong Share Registrar, receiving bank, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Bookrunner, the Lead Manager and the Underwriter nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
 - (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
 - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Lead Manager and the Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing;
 - declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- confirm that you understand that our Company, the Directors and the Lead Manager will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, the Hong Kong Share Registrar, receiving bank, the Sponsor, the Bookrunner, the Lead Manager, the Underwriter and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Hong Kong Companies Ordinance, the Memorandum and Articles of Association of our Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum indicative Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum indicative Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Public Offer Shares. Instructions for more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 30 September 2013	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 2 October 2013	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 3 October 2013	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 4 October 2013	—	8:00 a.m.⁽¹⁾ to 12:00 noon

Note (1): These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 30 September 2013 until 12:00 noon on Friday, 4 October 2013 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 4 October 2013, the last application day or such later time as described in “Effect of Bad Weather Conditions on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Lead Manager, the Underwriter and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sponsor, the Lead Manager and the Underwriter take no responsibility for such applications.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 4 October 2013.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- *control the composition of the board of directors of the company;*
- *control more than half of the voting power of the company; or*
- *hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum indicative Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 4,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Share Offer”.

9. EFFECT OF BAD WEATHER CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 October 2013. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If the application lists do not open and close on Friday, 4 October 2013 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the indication of the level of interest in the Placing, the level of applications under the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 10 October 2013 in *The Standard* (in English) and *Hong Kong Economic Journal* (in Chinese), on the Company’s website at www.ludaocn.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.ludaocn.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, 10 October 2013;
- from the website of Tricor Investor Services Limited at www.tricor.com.hk/ipo/result with a “search by ID Number/Business Registration Number” function on a 24-hour basis from 8:00 a.m. on Thursday, 10 October 2013 to midnight on Thursday, 17 October 2013;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 10 October 2013 to Wednesday, 16 October 2013 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 10 October 2013 to Tuesday, 15 October 2013 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure of the Share Offer”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Lead Manager and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Lead Manager believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.89 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure of the Share Offer — Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 10 October 2013.

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum indicative Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 10 October 2013. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 11 October 2013 provided that the Share Offer has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Company’s Hong Kong Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 10 October 2013 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 10 October 2013, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 10 October 2013, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 10 October 2013, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 10 October 2013 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(iii) *If you apply via electronic application instructions to HKSCC*

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 10 October 2013, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in "Publication of Results" above on Thursday, 10 October 2013. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 10 October 2013 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 10 October 2013. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum indicative Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 10 October 2013.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to Essence Corporate Finance (Hong Kong) Limited pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

30 September 2013

The Directors
China Ludao Technology Company Limited
Essence Corporate Finance (Hong Kong) Limited

Dear Sirs,

We report on the financial information of China Ludao Technology Company Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the combined balance sheets as at 31 December 2010, 2011 and 2012 and 31 March 2013 and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended 31 December 2010, 2011 and 2012 and the three months ended 31 March 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to IV below for inclusion in Appendix I to the prospectus of the Company dated 30 September 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1 of Section II headed "Reorganisation and changes in group structure" below, which was completed on 16 September 2013, the Company became the holding company of the subsidiaries comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies, or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation.

All companies comprising the Group have adopted 31 December as their financial year end date. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The details of the statutory auditors of these companies are set out in Note 1 of Section II below.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSA”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRS.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that give a true and fair view in accordance with the basis of presentation set out in Note 1 of Section II below and in accordance with HKFRS, and for such internal control as the directors determine is necessary to enable the preparation of the financial information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1 of Section II below, a true and fair view of the combined state of affairs of the Group as at 31 December 2010, 2011 and 2012 and 31 March 2013 of the Group's combined results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for the three months ended 31 March 2012 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 1 of Section II below and the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 1 of Section II below, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2010, 2011 and 2012 and 31 March 2013 and for each of the years ended 31 December 2010, 2011 and 2012, and each of the three months ended 31 March 2012 and 2013 (the "Financial Information"), presented on the basis set out in Note 1 below:

(A) Combined Income Statements

	Notes	Year ended 31 December			Three months ended 31 March	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	6	152,189	212,676	228,852	45,392	54,343
Cost of sales	7	(116,479)	(163,292)	(173,574)	(35,410)	(41,614)
Gross profit		35,710	49,384	55,278	9,982	12,729
Other income and other gains/(losses) — net	6	(379)	(365)	5,110	(4)	(272)
Selling expenses	7	(6,889)	(8,042)	(9,967)	(2,014)	(2,781)
Administrative expenses	7	(10,529)	(14,913)	(22,980)	(4,647)	(4,602)
Operating profit		17,913	26,064	27,441	3,317	5,074
Finance income	10	998	462	877	256	175
Finance costs	10	(20)	—	(21)	(21)	—
Finance income — net		978	462	856	235	175
Profit before income tax		18,891	26,526	28,297	3,552	5,249
Income tax expense	11	(2,881)	(4,014)	(4,485)	(902)	(899)
Profit for the year/period attributable to owners of the Company		<u>16,010</u>	<u>22,512</u>	<u>23,812</u>	<u>2,650</u>	<u>4,350</u>
Earnings per share for profit attributable to owners of the Company during the year/period						
— basic and diluted	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Dividends	24	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

I. FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

(B) Combined Statements of Comprehensive Income

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<i>Notes</i>					
Profit for the year/period	16,010	22,512	23,812	2,650	4,350
Other comprehensive income that may be reclassified to profit or loss					
Currency translation difference	<u>336</u>	<u>479</u>	<u>79</u>	<u>6</u>	<u>80</u>
Total comprehensive income for the year/ period attributable to owners of the Company	<u><u>16,346</u></u>	<u><u>22,991</u></u>	<u><u>23,891</u></u>	<u><u>2,656</u></u>	<u><u>4,430</u></u>

I. FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

(C) Combined Balance Sheets

	Notes	As at 31 December			As at
		2010	2011	2012	31 March
		RMB'000	RMB'000	RMB'000	2013
ASSETS					
Non-current assets					
Land use rights	13	2,084	2,034	1,984	1,972
Property, plant and equipment	14	41,323	43,880	45,346	45,372
Intangible assets	15	180	297	866	1,014
Deferred income tax assets	23	270	291	264	264
Prepayments for property, plant and equipment and land use right		1,246	150	620	6,319
		<u>45,103</u>	<u>46,652</u>	<u>49,080</u>	<u>54,941</u>
Current assets					
Inventories	16	19,020	21,856	24,590	30,129
Trade and other receivables	17	38,666	87,912	77,121	89,299
Pledged bank deposits	19	20,567	31,389	22,287	17,596
Cash and cash equivalents	18	8,258	4,268	36,284	8,341
		<u>86,511</u>	<u>145,425</u>	<u>160,282</u>	<u>145,365</u>
Total assets		<u><u>131,614</u></u>	<u><u>192,077</u></u>	<u><u>209,362</u></u>	<u><u>200,306</u></u>
EQUITY					
Capital and reserves attributable to owners of the Company					
Combined share capital and capital reserve	20	28,029	28,029	25,872	25,761
Other reserves	21	3,352	6,083	9,046	9,126
Retained earnings		16,856	37,116	58,044	62,394
Total equity		<u>48,237</u>	<u>71,228</u>	<u>92,962</u>	<u>97,281</u>
LIABILITIES					
Current liabilities					
Trade and other payables	22	83,377	118,387	114,963	101,840
Current income tax liabilities		—	2,462	1,437	1,185
		<u>83,377</u>	<u>120,849</u>	<u>116,400</u>	<u>103,025</u>
Total liabilities		<u><u>83,377</u></u>	<u><u>120,849</u></u>	<u><u>116,400</u></u>	<u><u>103,025</u></u>
Total equity and liabilities		<u><u>131,614</u></u>	<u><u>192,077</u></u>	<u><u>209,362</u></u>	<u><u>200,306</u></u>
Net current assets		<u><u>3,134</u></u>	<u><u>24,576</u></u>	<u><u>43,882</u></u>	<u><u>42,340</u></u>
Total assets less current liabilities		<u><u>48,237</u></u>	<u><u>71,228</u></u>	<u><u>92,962</u></u>	<u><u>97,281</u></u>

I. FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

(D) Combined Statements of Changes in Equity

	Attributable to the owners of the Company						
	Combined share capital and capital reserve (Note 20)	Other reserves			Total	Retained earnings	Total Equity
		Statutory reserves (Note 21)	Exchange reserves (Note 21)				
		RMB'000	RMB'000	RMB'000			
For the year ended 31 December 2010							
Balance at 1 January 2010	28,029	681	7	688	3,174	31,891	
Comprehensive income							
Profit for the year	—	—	—	—	16,010	16,010	
Currency translation difference	—	—	336	336	—	336	
Total comprehensive income	—	—	336	336	16,010	16,346	
Transaction with owners							
Profit appropriation	—	2,328	—	2,328	(2,328)	—	
Balance at 31 December 2010	<u>28,029</u>	<u>3,009</u>	<u>343</u>	<u>3,352</u>	<u>16,856</u>	<u>48,237</u>	
For the year ended 31 December 2011							
Balance at 1 January 2011	28,029	3,009	343	3,352	16,856	48,237	
Comprehensive income							
Profit for the year	—	—	—	—	22,512	22,512	
Currency translation difference	—	—	479	479	—	479	
Total comprehensive income	—	—	479	479	22,512	22,991	
Transaction with owners							
Profit appropriation	—	2,252	—	2,252	(2,252)	—	
Balance at 31 December 2011	<u>28,029</u>	<u>5,261</u>	<u>822</u>	<u>6,083</u>	<u>37,116</u>	<u>71,228</u>	
For the year ended 31 December 2012							
Balance at 1 January 2012	28,029	5,261	822	6,083	37,116	71,228	
Comprehensive income							
Profit for the year	—	—	—	—	23,812	23,812	
Currency translation difference	—	—	79	79	—	79	
Total comprehensive income	—	—	79	79	23,812	23,891	
Transaction with owners							
Profit appropriation	—	2,884	—	2,884	(2,884)	—	
Share issuance costs	(2,157)	—	—	—	—	(2,157)	
Balance at 31 December 2012	<u>25,872</u>	<u>8,145</u>	<u>901</u>	<u>9,046</u>	<u>58,044</u>	<u>92,962</u>	

I. FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

(D) Combined Statements of Changes in Equity (Continued)

	Attributable to owners of the Company					Total Equity
	Combined share capital and capital reserve (Note 20)	Other reserves			Retained earnings	
		Statutory reserves (Note 21)	Exchange reserves (Note 21)	Total		
		RMB'000	RMB'000			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the three months ended 31 March 2013						
Balance at 1 January 2013	25,872	8,145	901	9,046	58,044	92,962
Comprehensive income						
Profit for the period	—	—	—	—	4,350	4,350
Currency translation difference	—	—	80	80	—	80
Total comprehensive income	—	—	80	80	4,350	4,430
Transaction with owners						
Share issuance costs	(111)	—	—	—	—	(111)
Balance at 31 March 2013	<u>25,761</u>	<u>8,145</u>	<u>981</u>	<u>9,126</u>	<u>62,394</u>	<u>97,281</u>
For the three months ended 31 March 2012 (unaudited)						
Balance at 1 January 2012	28,029	5,261	822	6,083	37,116	71,228
Comprehensive income						
Profit for the period	—	—	—	—	2,650	2,650
Currency translation difference	—	—	6	6	—	6
Total comprehensive income	—	—	6	6	2,650	2,656
Transaction with owners						
Share issuance costs	(450)	—	—	—	—	(450)
Balance at 31 March 2012	<u>27,579</u>	<u>5,261</u>	<u>828</u>	<u>6,089</u>	<u>39,766</u>	<u>73,434</u>

I. FINANCIAL INFORMATION OF THE GROUP (CONTINUED)

(E) Combined Cash Flow Statements

	Notes	Year ended 31 December			Three months ended 31 March	
		2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (Unaudited)	2013 RMB'000
Cash flows from operating activities						
Cash generated from/(used in) operations	25(a)	12,716	3,206	8,452	(15,172)	(16,600)
Interest paid		(20)	—	(21)	(21)	—
Income tax paid		(5,663)	(1,394)	(5,483)	(1,814)	(1,151)
Net cash generated from/(used in) operating activities		<u>7,033</u>	<u>1,812</u>	<u>2,948</u>	<u>(17,007)</u>	<u>(17,751)</u>
Cash flows from investing activities						
Purchase of property, plant and equipment		(3,493)	(5,552)	(4,701)	(428)	(884)
Prepayment of property, plant and equipment		(54)	1,096	(470)	(56)	1
Prepayment of land use right		—	—	—	—	(5,700)
Purchase of intangible assets		(186)	(139)	(604)	(24)	(169)
Decrease/(increase) of pledged bank deposits		22,968	(10,822)	9,102	4,337	4,690
Interest received		998	462	877	256	175
Proceeds from disposal of property, plant and equipment	25(b)	—	16	—	—	—
Net cash generated from/(used in) investing activities		<u>20,233</u>	<u>(14,939)</u>	<u>4,204</u>	<u>4,085</u>	<u>(1,887)</u>
Cash flows from financing activities						
Proceeds from bank borrowings		—	—	6,000	6,000	—
Repayments of bank borrowings		(115)	—	(6,000)	(6,000)	—
Advances from related parties		16,994	10,215	30,543	30,543	—
Repayments of advances to related parties		(21,033)	(25,194)	—	—	—
Proceeds from notes payable		106,593	121,389	127,200	27,946	26,857
Repayments of notes payable		(128,742)	(97,273)	(132,879)	(40,061)	(35,162)
Net cash (used in)/generated from financing activities		<u>(26,303)</u>	<u>9,137</u>	<u>24,864</u>	<u>18,428</u>	<u>(8,305)</u>
Net increase/(decrease) in cash and cash equivalents						
Cash and cash equivalents at beginning of the year/period	18	<u>7,295</u>	<u>8,258</u>	<u>4,268</u>	<u>4,268</u>	<u>36,284</u>
Cash and cash equivalents at end of the year/period	18	<u><u>8,258</u></u>	<u><u>4,268</u></u>	<u><u>36,284</u></u>	<u><u>9,774</u></u>	<u><u>8,341</u></u>

II. NOTES TO THE FINANCIAL INFORMATION

1 General Information and Group Reorganisation

1.1 General information

The Company was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) of the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1180, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sale of air fresheners, aerosol insecticides, household cleaners and auto care products in the People's Republic of China (the "PRC") (the "Listing Business"). The Listing Business is mainly conducted through Zhejiang Ludao Technology Co. Ltd ("Ludao PRC"), which is a wholly owned subsidiary of Ludao Investments Holdings Limited ("Ludao BVI"). The ultimate holding company of the Company is Ludao China Investments Limited ("Ludao Investments") which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"). The ultimate controlling party of the Group is Mr. Yu Yuerong.

1.2 Reorganisation and changes in group structure

On 16 September 2013, Ludao Investments underwent a group reorganisation (the "Reorganisation"), pursuant to which the companies engaged in the Listing Business were transferred to the Company. The Reorganisation involved the followings steps:

- (1) The Company was incorporated on 25 May 2012 with an authorized share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, of which 1 Share was allotted and issued fully paid to Reid Services Limited, and was transferred to Ludao Investments on 25 May 2012. On the same date, Ludao Investments and Neland Development Limited ("Neland") subscribed for 900 Shares and 99 Shares of the Company respectively at par.
- (2) On 16 September 2013, the Company issued and allotted 8,109 Shares and 891 Shares (all credited as fully paid) to Ludao Investments and Neland respectively pursuant to a share swap agreement, as consideration for the acquisition by the Company of the entire issued share capital of Ludao (BVI). Upon completion of the share swap, Ludao Investments and Neland held 90.1% and 9.9% equity interests in the Company.
- (3) On 16 September 2013, the authorised share capital of the Company was increased from HK\$390,000 to HK\$20,000,000 by the creation of an additional 1,961,000,000 new shares pursuant to a resolution in writing passed by the shareholders.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

1 General Information and Group Reorganisation (Continued)

1.2 Reorganisation and changes in group structure (Continued)

Upon completion of the Reorganisation and as at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Registered/ Issued and paid-up capital	Equity interest held				Principal activities/ place of operation	Statutory auditors	
			31 December			31 March			As at the date of this report
			2010	2011	2012	2013			
<i>Directly owned:</i>									
Ludao BVI	Incorporated in British Virgin Island ("BVI") on 18 December 2007	USD100	100%	100%	100%	100%	100%	Investment holding/ the PRC	Note (i)
<i>Indirectly owned:</i>									
Ludao PRC	Established in the PRC on 23 August 2002	HKD41,350,000	100%	100%	100%	100%	100%	Manufacturing and selling of, aerosol products/the PRC	Note (ii)
Ludao HK	Incorporated in Hong Kong on 6 March 2008	HKD1	100%	100%	Note (iv)	Note (iv)	Note (iv)	Dormant/Hong Kong	Note (iii)

Notes:

- (i) No audited financial statements have been prepared for the Company as there is no statutory requirement under its place of incorporation.
- (ii) The statutory financial statements for the year ended 31 December 2010 was audited by Zhejiang Sanmen Sanxin Certified Public Accountant Co., Ltd. (浙江三門三信會計師事務所) and the statutory financial statements for the years ended 31 December 2011 and 2012 were audited by Zhejiang Jingye Duteous Certified Public Accountant Co., Ltd. (浙江敬業會計師事務所).
- (iii) The statutory financial statements for the years ended 31 December 2010 and 2011 were audited by Orion CPA Limited.
- (iv) Ludao HK was disposed to Controlling shareholder at a consideration of HKD1 on 21 November 2012. The gain on disposal of Ludao HK was included in the "Others" of "Other income and other gains/(losses) — net" in Note 6. As at 31 December 2012 and 31 March 2013 and as at date of this report, the Company did not hold any equity interest of Ludao HK.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**1 General Information and Group Reorganisation (Continued)****1.3 Basis of presentation**

Immediately prior to and after the Reorganisation, the Listing Business is held by Ludao Investments. The Listing Business is mainly conducted through Ludao PRC, a wholly owned subsidiary of Ludao BVI. Pursuant to the Reorganisation, Ludao BVI together with the Listing Business was transferred to the Company. The Company is an investment holding company. The Company has not been involved in any other activities prior to the Reorganisation that meet the definition of business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the combined financial information of the companies now comprising the Group is presented using the carrying values of the Listing Business under Ludao BVI for all periods presented. For the purpose of this report, the Financial Information of the Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of 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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined financial statements are disclosed in Note 4.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

2 Summary of Significant Accounting Policies

2.1 Basis of preparation (Continued)

New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 32 (amendments)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (amendments)	Recoverable amount disclosures for non-financial assets	1 January 2014
HKAS 39 (amendments)	Novation of derivatives	1 January 2014
HKFRS 9 and HKFRS 7 (amendments)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 10, HKFRS 12 and HKAS 27 (amendments)	Investment entities	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
HK (IFRIC) Interpretation 21	Levies	1 January 2014

The Group did not early adopt any of these new or revised standards, amendments and interpretation to existing standards. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**2 Summary of Significant Accounting Policies (Continued)****2.2 Consolidation***Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the combined statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**2 Summary of Significant Accounting Policies (Continued)****2.4 Foreign currency translation****(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined financial statement is presented in Renminbi ("RMB") which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined income statement within "finance income" or "finance costs". All other foreign exchange gains and losses are presented in the combined income statement within "other income and other gains/(losses) — net".

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transaction); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On combination, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the combined income statement as part of the gain or loss on sale.

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the combined income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**2 Summary of Significant Accounting Policies (Continued)****2.6 Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and stated at cost. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Depreciation is not provided on construction in progress until the related asset is completed for intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the combined income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Plant and equipment	10–15 years
Office furniture and equipment	3–5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income and other gains/(losses)-net' in the combined income statement.

2.7 Intangible assets

Intangible assets represent the computer software and patents. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Amortisation is calculated using the straight-line basis to allocate the cost of the computer software and patents over their estimated useful lives of 10 years and 5 years respectively.

2.8 Research and development expenditure

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**2 Summary of Significant Accounting Policies (Continued)****2.8 Research and development expenditure (Continued)**

- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

2.9 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units), which are not larger than the operating segments under HKFRS 8. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those that are not expected to be realised within the normal operating cycle of the business. These are classified as non-current assets. Loans and receivables comprise trade and other receivables, pledged bank deposits and cash and cash equivalents.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials direct labour, other direct costs and related production overheads based on normal operating capacity. It excluded borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the combined cash flow statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investment with original maturities of three months or less.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**2 Summary of Significant Accounting Policies (Continued)****2.14 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the combined income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the combined income statement on a straight-line basis over the expected lives of the related assets.

2.17 Current and deferred income tax

The tax expense for the period comprised current and deferred tax. Tax is recognised in the combined income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**2 Summary of Significant Accounting Policies (Continued)****2.17 Current and deferred income tax (Continued)****(b) *Deferred income tax****Inside basis differences*

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Outside basis differences

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits*Pension obligations*

The Group contributes on a monthly basis to various defined contribution plans organized by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**2 Summary of Significant Accounting Policies (Continued)****2.19 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.20 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the combined income statement on a straight-line basis over the period of the lease.

3 Financial Risk Management**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk, cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. The Group is subject to foreign exchange risk arising from future commercial transactions and recognised 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.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
HKD	45	368	166	108
USD	7,797	5,374	36,711	38,942
EUR	—	—	58	58
Total	<u>7,842</u>	<u>5,742</u>	<u>36,935</u>	<u>39,108</u>
Liabilities				
HKD	10,178	10,024	15,830	9,065
USD	<u>814</u>	<u>3,461</u>	<u>36</u>	<u>6,214</u>
Total	<u>10,992</u>	<u>13,485</u>	<u>15,866</u>	<u>15,279</u>

The following table shows the sensitivity analysis on profit before tax of a 5% increase in RMB against USD and HKD. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end of Relevant Periods for the respective changes in rate.

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
5% appreciation in exchange rate against USD					
Decrease in the profit for the year/period	(349)	(96)	(1,836)	(67)	(1,636)
5% appreciation in exchange rate against HKD					
Increase in the profit for the year/period	507	483	783	572	448

(b) Price risk

The Group is not exposed to equity securities price risk or commodity price risk. Also, the Group has not entered into any long term contracts with the suppliers. Fluctuations in the price of raw materials are usually passed on to customers.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**3 Financial Risk Management (Continued)****3.1 Financial risk factors (Continued)****(c) Credit risk**

The Group is exposed to credit risk in relation to its cash and cash equivalents, pledged bank deposits and trade and other receivables.

For cash and cash equivalents and pledged bank deposits, the management manages the credit risk by placing all the bank deposits in state-owned financial institutions or reputable banks which are all high-credit-quality financial institutions.

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

As at 31 December 2010, 2011 and 2012, and 31 March 2013, the Group had certain concentration of credit risk as approximately 77%, 93%, 68% and 63% of the total trade receivable which were due from the Group's five largest customers respectively.

(d) Liquidity risk

The Group has adequate cash and cash equivalents to finance its operating activities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and through having available sources of financing.

The trade and other payables (excluded non-financial liabilities) of the Group as at 31 December 2010, 2011 and 2012, and 31 March 2013 are all due within one year.

(e) Cash flow and fair value interest rate risk

The Group's exposures to changes in interest rates are mainly attributable to its bank deposits at variable interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk.

The Group does not hedge its fair value interest rate risk as management believes that the fair value interest rate risk does not have material impact to the Group as at 31 December 2010, 2011 and 2012, and 31 March 2013 as the discounting impact as a result of a shift of the fixed interest rate on the borrowings is not material.

As at 31 December 2010, 2011 and 2012, and 31 March 2013, expected change in interest rates has no material impact on the interest income of pledged bank deposits and cash and cash equivalents.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

3 Financial Risk Management (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

The gearing ratios at 31 December 2010, 2011 and 2012, and 31 March 2013 were as follows:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Notes payable	48,536	72,652	66,973	58,668
Total equity	48,237	71,228	92,962	97,281
Gearing ratio	101%	102%	72%	60%

The decrease in gearing ratio as at 31 March 2013 resulted primarily from the repayment of notes payable during the period.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, trade and other receivables, trade and other payables approximate to their fair values as the impact of discounting is not significant.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**4 Critical Accounting Estimates and Judgments**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

(c) Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. A considerable amount of judgment is required in determining such allowances. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

(d) Income taxes and deferred taxation

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be recognised. The outcome of their actual recognition may be different.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

5 Segment Information

Management reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports reviewed by the executive directors of the companies comprising the Group that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and relative products which is considered by management as one single business segment.

Geographical information

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

Revenue from external customers

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
United states of America	124,888	169,812	150,154	30,140	35,930
Mainland China	13,503	16,632	38,212	8,658	9,744
Europe	6,539	9,575	18,701	2,641	4,869
Others	7,259	16,657	21,785	3,953	3,800
	<u>152,189</u>	<u>212,676</u>	<u>228,852</u>	<u>45,392</u>	<u>54,343</u>

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

Non-current assets

Non-current assets for this purpose consist of land use rights, property, plant and equipment and intangible assets which are all located in the PRC as at 31 December 2010, 2011 and 2012, and 31 March 2013.

Information about major customers

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

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fayeshine D and M Co., Ltd.	115,282	115,988	75,493	947	27,183
Ningbo Hiking Import and Export Co., Ltd.	116	46,887	61,615	32,191	—
Yiwu Weiwei Cosmetics Co. Ltd	3,822	6,223	15,221	7,124	195
	<u>119,220</u>	<u>169,098</u>	<u>152,329</u>	<u>40,262</u>	<u>27,378</u>

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

6 Revenue, Other Income and Other Gains/(Losses) — Net

The Group is principally engaged in the sale of products. Revenue, other income and other gains/(losses) recognised during each of the years ended 31 December 2010, 2011 and 2012 and each of the three months ended 31 March 2012 and 2013 are as follows:

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue					
Sales of goods	<u>152,189</u>	<u>212,676</u>	<u>228,852</u>	<u>45,392</u>	<u>54,343</u>
Other income and other gains/ (losses) — net					
Government grants (a)	252	617	3,195	—	10
Sales of scrap material	—	—	2,264	—	253
Exchange losses	(699)	(881)	(398)	(30)	(535)
Others	<u>68</u>	<u>(101)</u>	<u>49</u>	<u>26</u>	<u>—</u>
	<u>(379)</u>	<u>(365)</u>	<u>5,110</u>	<u>(4)</u>	<u>(272)</u>

Note:

- (a) The amount mainly represents government grants received by Ludao PRC for subsidizing its research and development expenditures, and as an incentive for the Company to attempt an initial public offering and listing of its shares on Main Board of Stock Exchange of Hong Kong Limited.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

7 Expenses by Nature

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

	Year ended 31 December			Three months ended 31 March	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (Unaudited)	2013 RMB'000
Depreciation and amortisation (Note 13, 14, 15)	2,660	2,900	2,975	708	830
Employee benefit expenses, excluding amount included in research and development costs (Note 8)	6,922	9,948	12,012	2,597	3,411
Raw materials used	110,171	153,429	163,134	33,772	44,210
Changes in inventories of finished goods and work in progress	76	(60)	71	(896)	(5,503)
Reversal of provision for write-down of inventories — net (Note 16)	(600)	(159)	(176)	(176)	—
Water and electricity expenditures	1,526	1,965	2,334	432	739
Transportation and travelling expenses	4,391	6,305	6,481	1,360	1,666
Telecommunication expenses	181	202	330	51	104
Exhibition expenses	785	470	366	66	56
Advertising cost	526	356	142	12	71
Other tax expenses	931	1,768	1,840	392	609
Research and development costs					
— Employee benefit expenses (Note 8)	1,324	1,501	2,585	532	926
— Materials and others	3,647	5,375	5,863	791	724
Entertainment expenses	141	259	203	10	73
Office expenses	189	322	291	33	51
Listing expenses	—	—	6,471	1,966	650
Operating lease expenses	8	75	209	28	69
Bank charges	119	129	118	24	30
Other expenses	900	1,462	1,272	369	281
Total	<u>133,897</u>	<u>186,247</u>	<u>206,521</u>	<u>42,071</u>	<u>48,997</u>

8 Employee Benefit Expenses (Including Directors' Emoluments)

	Year ended 31 December			Three months ended 31 March	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (Unaudited)	2013 RMB'000
Wages, allowance and bonus	7,530	10,090	12,562	2,762	3,852
Retirement scheme contribution	327	430	486	121	229
Others	389	929	1,549	246	256
	<u>8,246</u>	<u>11,449</u>	<u>14,597</u>	<u>3,129</u>	<u>4,337</u>

Ludao PRC makes defined contribution to a retirement scheme managed by local government in the PRC based on 22 % of the basic salary of eligible staff during each of the years ended 31 December 2010, 2011 and 2012, and each of the three months ended 31 March 2012 and 2013. It is the local government's responsibility to pay the retirement pension to the staffs who retire.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9 Directors', Chief Executive's and Senior Management's Emoluments

(a) Directors' and chief executive's emoluments

The directors' and chief executive's emoluments during the Relevant Periods are equivalent to key management compensation.

The remuneration of each director and the chief executives of the Company during the Relevant Periods are set out below:

Name of Directors	Year ended 31 December 2010				
	Fees	Salary	Discretionary bonus	Employer's contribution to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Yuerong*	—	101	—	2	103
Mr. Han Jianhua	—	140	—	—	140
Ms. Pan Yili	—	96	—	2	98
	—	337	—	4	341
Independent non-executive Directors					
Ms. Cho Mei Ting	—	—	—	—	—
Mr. Wong Chi Wai	—	—	—	—	—
Mr. Ruan Lianfa	—	—	—	—	—
	—	—	—	—	—

* Mr. Yu Yuerong is also the chief executive of the Company.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9 Directors', Chief Executive's and Senior Management's Emoluments (Continued)

(a) Directors' and chief executive's emoluments (Continued)

Year ended 31 December 2011					
Name of Directors	Fees	Salary	Discretionary bonus	Employer's contribution to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Yuerong*	—	123	—	2	125
Mr. Han Jianhua	—	78	—	—	78
Ms. Pan Yili	—	70	—	3	73
	—	271	—	5	276
Independent non-executive Directors					
Ms. Cho Mei Ting	—	—	—	—	—
Mr. Wong Chi Wai	—	—	—	—	—
Mr. Ruan Lianfa	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2012					
Name of Directors	Fees	Salary	Discretionary bonus	Employer's contribution to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Yuerong*	—	96	—	3	99
Mr. Han Jianhua	—	106	—	4	110
Ms. Pan Yili	—	98	—	4	102
	—	300	—	11	311
Independent non-executive Directors					
Ms. Cho Mei Ting	—	—	—	—	—
Mr. Wong Chi Wai	—	—	—	—	—
Mr. Ruan Lianfa	—	—	—	—	—
	—	—	—	—	—

* Mr. Yu Yuerong is also the chief executive of the Company.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9 Directors', Chief Executive's and Senior Management's Emoluments (Continued)

(a) Directors' and chief executive's emoluments (Continued)

Three months ended 31 March 2012 (unaudited)					
Name of Directors	Fees	Salary	Discretionary bonus	Employer's contribution to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Yuerong*	—	24	—	1	25
Mr. Han Jianhua	—	26	—	1	27
Ms. Pan Yili	—	25	—	1	26
	—	75	—	3	78
Independent non-executive Directors					
Ms. Cho Mei Ting	—	—	—	—	—
Mr. Wong Chi Wai	—	—	—	—	—
Mr. Ruan Lianfa	—	—	—	—	—
	—	—	—	—	—
Three months ended 31 March 2013					
Name of Directors	Fees	Salary	Discretionary bonus	Employer's contribution to retirement scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Yuerong*	—	24	—	1	25
Mr. Han Jianhua	—	27	—	1	28
Ms. Pan Yili	—	25	—	1	26
	—	76	—	3	79
Independent non-executive Directors					
Ms. Cho Mei Ting	—	—	—	—	—
Mr. Wong Chi Wai	—	—	—	—	—
Mr. Ruan Lianfa	—	—	—	—	—
	—	—	—	—	—

* Mr. Yu Yuerong is also the chief executive of the Company.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

9 Directors', Chief Executive's and Senior Management's Emoluments (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Relevant Periods include three directors in the year ended 31 December 2010 and 2011 and two directors in the year ended 31 December 2012 and the three months ended 31 March 2012 and 2013 whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining individuals during the Relevant Periods are as follows:

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wages, allowance and bonus	230	136	420	105	114
Retirement scheme contribution	<u>5</u>	<u>8</u>	<u>8</u>	<u>2</u>	<u>2</u>
	<u>235</u>	<u>144</u>	<u>428</u>	<u>107</u>	<u>116</u>

During the Relevant Periods, no directors or any of the five highest paid individuals of the companies comprising the Group waived any emoluments and no emoluments were paid by the companies comprising the Group to any of the directors or five highest paid individuals as an inducement to join or upon joining the companies comprising the Group or as compensation for loss of office.

During the Relative Periods, the emoluments paid to each of the highest individuals fell within the banding between nil to HKD1,000,000.

There was no arrangement under which a director or any of the five highest paid individuals agreed to waive any emolument during the Relevant Periods.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

10 Finance Income — Net

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income	998	462	877	256	175
Interest expense	(20)	—	(21)	(21)	—
Finance income — net	<u>978</u>	<u>462</u>	<u>856</u>	<u>235</u>	<u>175</u>

11 Income Tax Expense

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax	2,689	4,035	4,458	875	899
Deferred income tax (Note 23)	<u>192</u>	<u>(21)</u>	<u>27</u>	<u>27</u>	<u>—</u>
	<u>2,881</u>	<u>4,014</u>	<u>4,485</u>	<u>902</u>	<u>899</u>

Pursuant to the rules and regulations of the Cayman Islands, the Group was not subject to any income tax in the Cayman Islands during the Relevant Periods.

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 Relevant Periods.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), the companies comprising the Group which were established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Ludao PRC was qualified as a High and New Technology Enterprise, and accordingly it is entitled to the preferential rate of 15% for the three years from 1 January 2010. The income tax rates of Ludao PRC for each of the years ended 31 December 2010, 2011 and 2012, and each of the three months ended 31 March 2012 and 2013 were 15%.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Group as follows:

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	<u>18,891</u>	<u>26,526</u>	<u>28,297</u>	<u>3,552</u>	<u>5,249</u>
Tax calculated at the tax rate of 25%	4,723	6,632	7,074	888	1,312
Tax holiday and preferential tax rates available to the group companies	(1,920)	(2,676)	(2,990)	(601)	(599)
Accelerated research and development deductible expenses	(149)	(673)	(1,147)	—	—
Expenses not deductible for taxation purposes	<u>227</u>	<u>731</u>	<u>1,548</u>	<u>615</u>	<u>186</u>
	<u>2,881</u>	<u>4,014</u>	<u>4,485</u>	<u>902</u>	<u>899</u>

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

12 Earnings Per Share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the group Reorganisation and the preparation of the results for each of the years ended 31 December 2010, 2011 and 2012, and each of the three months ended 31 March 2012 and 2013 on a combined basis as disclosed in Note 1.3 above.

13 Land Use Rights

The Group's interests in land use rights represent prepaid operating lease payments for land occupied by the Group in the PRC and the net book amount is analysed as follows:

	Year ended 31 December			Three months ended
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book amount	2,134	2,084	2,034	1,984
Amortisation (<i>Note 7</i>)	(50)	(50)	(50)	(12)
Closing net book amount	<u>2,084</u>	<u>2,034</u>	<u>1,984</u>	<u>1,972</u>
	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	2,491	2,491	2,491	2,491
Accumulated amortisation	<u>(407)</u>	<u>(457)</u>	<u>(507)</u>	<u>(519)</u>
Net book amount	<u>2,084</u>	<u>2,034</u>	<u>1,984</u>	<u>1,972</u>

The lease period of land use rights is 50 years. As at 31 December 2010, 2011 and 2012, and 31 March 2013, the remaining lease period of the Group's land use rights was 42, 41, 40 and 40 years respectively.

At 31 December of 2010, 2011 and 2012, and 31 March 2013, notes payable were secured by the land use rights (Note 22(b)).

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

14 Property, Plant and Equipment

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Office furniture and equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010						
Cost	30,665	12,136	1,778	2,344	—	46,923
Accumulated depreciation	<u>(2,065)</u>	<u>(3,312)</u>	<u>(619)</u>	<u>(437)</u>	<u>—</u>	<u>(6,433)</u>
Net book amount	<u>28,600</u>	<u>8,824</u>	<u>1,159</u>	<u>1,907</u>	<u>—</u>	<u>40,490</u>
Year ended 31 December 2010						
Opening net book amount	28,600	8,824	1,159	1,907	—	40,490
Additions	1,065	1,995	40	337	—	3,437
Depreciation (Note 7)	<u>(1,012)</u>	<u>(1,139)</u>	<u>(229)</u>	<u>(224)</u>	<u>—</u>	<u>(2,604)</u>
Closing net book amount	<u>28,653</u>	<u>9,680</u>	<u>970</u>	<u>2,020</u>	<u>—</u>	<u>41,323</u>
At 31 December 2010						
Cost	31,730	14,131	1,818	2,681	—	50,360
Accumulated depreciation	<u>(3,077)</u>	<u>(4,451)</u>	<u>(848)</u>	<u>(661)</u>	<u>—</u>	<u>(9,037)</u>
Net book amount	<u>28,653</u>	<u>9,680</u>	<u>970</u>	<u>2,020</u>	<u>—</u>	<u>41,323</u>
Year ended 31 December 2011						
Opening net book amount	28,653	9,680	970	2,020	—	41,323
Additions	1,062	2,615	124	601	1,107	5,509
Transfer	1,107	—	—	—	(1,107)	—
Disposals (Note 25(b))	—	(99)	—	(25)	—	(124)
Depreciation (Note 7)	<u>(1,058)</u>	<u>(1,316)</u>	<u>(243)</u>	<u>(211)</u>	<u>—</u>	<u>(2,828)</u>
Closing net book amount	<u>29,764</u>	<u>10,880</u>	<u>851</u>	<u>2,385</u>	<u>—</u>	<u>43,880</u>
At 31 December 2011						
Cost	33,899	16,638	1,942	3,204	—	55,683
Accumulated depreciation	<u>(4,135)</u>	<u>(5,758)</u>	<u>(1,091)</u>	<u>(819)</u>	<u>—</u>	<u>(11,803)</u>
Net book amount	<u>29,764</u>	<u>10,880</u>	<u>851</u>	<u>2,385</u>	<u>—</u>	<u>43,880</u>
Year ended 31 December 2012						
Opening net book amount	29,764	10,880	851	2,385	—	43,880
Additions	363	3,428	199	282	84	4,356
Transfer	80	—	—	—	(80)	—
Depreciation (Note 7)	<u>(1,055)</u>	<u>(1,185)</u>	<u>(284)</u>	<u>(366)</u>	<u>—</u>	<u>(2,890)</u>
Closing net book amount	<u>29,152</u>	<u>13,123</u>	<u>766</u>	<u>2,301</u>	<u>4</u>	<u>45,346</u>

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

14 Property, Plant and Equipment (Continued)

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Office furniture and equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012						
Cost	34,342	20,066	2,141	3,486	4	60,039
Accumulated depreciation	<u>(5,190)</u>	<u>(6,943)</u>	<u>(1,375)</u>	<u>(1,185)</u>	<u>—</u>	<u>(14,693)</u>
Net book amount	<u>29,152</u>	<u>13,123</u>	<u>766</u>	<u>2,301</u>	<u>4</u>	<u>45,346</u>
Three months ended 31 March 2013						
Opening net book amount	29,152	13,123	766	2,301	4	45,346
Additions	16	767	24	—	16	823
Depreciation (Note 7)	<u>(274)</u>	<u>(366)</u>	<u>(74)</u>	<u>(83)</u>	<u>—</u>	<u>(797)</u>
Closing net book amount	<u>28,894</u>	<u>13,524</u>	<u>716</u>	<u>2,218</u>	<u>20</u>	<u>45,372</u>
At 31 March 2013						
Cost	34,358	20,833	2,165	3,486	20	60,862
Accumulated depreciation	<u>(5,464)</u>	<u>(7,309)</u>	<u>(1,449)</u>	<u>(1,268)</u>	<u>—</u>	<u>(15,490)</u>
Net book amount	<u>28,894</u>	<u>13,524</u>	<u>716</u>	<u>2,218</u>	<u>20</u>	<u>45,372</u>

Depreciation expenses of RMB1,289,000, RMB1,398,000, RMB1,215,000, RMB292,000 and RMB379,000 have been charged to cost of sales and RMB1,315,000, RMB1,430,000, RMB1,675,000, RMB395,000 and RMB418,000 have been charged to administrative expenses in the combined income statement for each of the years ended 31 December 2010, 2011 and 2012, and each of the three months ended 31 March 2012 and 2013 respectively.

As 31 December of 2010, 2011 and 2012, and 31 March 2013, notes payable were secured by buildings at the carrying amount of RMB23,861,000, RMB23,158,000, RMB22,454,000 and RMB22,274,000 respectively (Note 22(b)).

15 Intangible Assets

	<u>Computer Software</u>	<u>Patents</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
At 1 January 2010			
Cost	—	—	—
Accumulated amortisation	<u>—</u>	<u>—</u>	<u>—</u>
Net book amount	<u>—</u>	<u>—</u>	<u>—</u>
Year ended 31 December 2010			
Opening net book amount	—	—	—
Additions	186	—	186
Amortisation charge (Note 7)	<u>(6)</u>	<u>—</u>	<u>(6)</u>
Closing net book amount	<u>180</u>	<u>—</u>	<u>180</u>
At 31 December 2010			
Cost	186	—	186
Accumulated amortisation	<u>(6)</u>	<u>—</u>	<u>(6)</u>
Net book amount	<u>180</u>	<u>—</u>	<u>180</u>

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

15 Intangible Assets (Continued)

	<u>Computer Software</u>	<u>Patents</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011			
Opening net book amount	180	—	180
Additions	139	—	139
Amortisation charge (<i>Note 7</i>)	<u>(22)</u>	<u>—</u>	<u>(22)</u>
Closing net book amount	<u>297</u>	<u>—</u>	<u>297</u>
At 31 December 2011			
Cost	325	—	325
Accumulated amortisation	<u>(28)</u>	<u>—</u>	<u>(28)</u>
Net book amount	<u>297</u>	<u>—</u>	<u>297</u>
Year ended 31 December 2012			
Opening net book amount	297	—	297
Additions	23	581	604
Amortisation charge (<i>Note 7</i>)	<u>(35)</u>	<u>—</u>	<u>(35)</u>
Closing net book amount	<u>285</u>	<u>581</u>	<u>866</u>
At 31 December 2012			
Cost	348	581	929
Accumulated amortisation	<u>(63)</u>	<u>—</u>	<u>(63)</u>
Net book amount	<u>285</u>	<u>581</u>	<u>866</u>
Three months ended 31 March 2013			
Opening net book amount	285	581	866
Additions	—	169	169
Amortisation charge (<i>Note 7</i>)	<u>(9)</u>	<u>(12)</u>	<u>(21)</u>
Closing net book amount	<u>276</u>	<u>738</u>	<u>1,014</u>
At 31 March 2013			
Cost	348	750	1,098
Accumulated amortisation	<u>(72)</u>	<u>(12)</u>	<u>(84)</u>
Net book amount	<u>276</u>	<u>738</u>	<u>1,014</u>

Amortisation had been charged to administrative expenses. No impairment charge was recognised during the Relevant Periods.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

16 Inventories

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Raw materials	9,425	12,042	14,671	14,707
Work in progress	1,047	1,353	2,214	2,827
Finished goods	9,084	8,838	7,906	12,796
Less: provision for write-down of inventories	(536)	(377)	(201)	(201)
Inventories — Net	<u>19,020</u>	<u>21,856</u>	<u>24,590</u>	<u>30,129</u>

The cost of inventories included in cost of sales during the years ended 31 December 2010, 2011 and 2012, and the three months ended 31 March 2013 amounted to RMB110,247,000, RMB153,369,000, RMB163,205,000 and RMB38,707,000 respectively.

The Group reversed provision for write-down of inventories amounting to RMB600,000, RMB159,000, RMB176,000 and nil for each of the years ended 31 December 2010, 2011, and 2012, and the three months ended 31 March 2013 respectively. The relevant inventories were sold to independent customers during the years ended 31 December 2010, 2011 and 2012, and the three months ended 31 March 2013. The above amounts are included in 'cost of sales' in the combined income statement.

17 Trade and Other Receivables

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Trade receivables (a)	6,939	36,529	45,124	49,531
Less: provision for impairment (b)	(132)	(90)	(90)	(90)
Trade receivables, net	6,807	36,439	45,034	49,441
Prepayments and deposits	467	2,379	17,158	35,928
Amounts due from related parties (Note 28(b))	5,181	9,730	2,912	2,790
Amount due from Controlling Shareholder (Note 28(b))	23,798	38,623	8,080	—
Other receivables	<u>2,413</u>	<u>741</u>	<u>3,937</u>	<u>1,140</u>
	<u>38,666</u>	<u>87,912</u>	<u>77,121</u>	<u>89,299</u>

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

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
RMB	33,708	82,743	43,484	51,895
USD	<u>4,958</u>	<u>5,169</u>	<u>33,637</u>	<u>37,404</u>
	<u>38,666</u>	<u>87,912</u>	<u>77,121</u>	<u>89,299</u>

The fair values of trade and other receivables approximate to their carrying values as at 31 December 2010, 2011 and 2012, and 31 March 2013 respectively.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

17 Trade and Other Receivables (Continued)

(a) Trade receivables

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

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Up to 3 months	4,983	35,894	32,143	37,446
3 to 6 months	254	176	8,803	7,816
6 to 12 months	106	391	4,081	4,156
Over 12 months	1,596	68	97	113
	<u>6,939</u>	<u>36,529</u>	<u>45,124</u>	<u>49,531</u>

The Group's sales are made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 85%, 84%, 76% and 73% of the Group's revenue for the years ended 31 December 2010, 2011 and 2012, and the three months ended 31 March 2013 respectively. They accounted for approximately 77%, 93%, 68% and 63% of the gross trade receivable balances as at 31 December 2010, 2011 and 2012, and 31 March 2013 respectively.

As at 31 December 2010, 2011 and 2012, and 31 March 2013, trade receivables of RMB3,045,000, RMB4,172,000, RMB19,440,000 and RMB31,764,000 respectively were past due but not considered impaired. These relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Within 3 months	1,221	3,627	6,549	19,769
3 to 6 months	254	176	8,803	7,816
6 to 12 months	106	369	4,081	4,156
Over 12 months	1,464	—	7	23
	<u>3,045</u>	<u>4,172</u>	<u>19,440</u>	<u>31,764</u>

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

17 Trade and Other Receivables (Continued)

(a) Trade receivables (Continued)

As at 31 December 2010, 2011 and 2012, and 31 March 2013, trade receivables of RMB132,000, RMB90,000, RMB90,000 and RMB90,000 respectively were impaired and provided for.

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
6 to 12 months	—	22	—	—
Over 12 months	132	68	90	90
	132	90	90	90

(b) Provision for impairment of trade receivables

The movements on the provision for impairment of trade receivables are as follows:

	Year ended 31 December			Three
	2010	2011	2012	months
	RMB'000	RMB'000	RMB'000	ended
				31 March
				2013
				RMB'000
At beginning of the year/period	132	132	90	90
Receivables written-off as uncollectible	—	(42)	—	—
At end of the year/period	132	90	90	90

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

The other classes within trade and other receivables do not contain impaired assets.

18 Cash and Cash Equivalents

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Cash at banks and in hand	8,258	4,268	36,284	8,341

The carrying amounts of cash at banks and in hand are mainly denominated in RMB. The carrying amounts of cash and cash equivalents approximate to their fair values and represent maximum exposure to credit risk.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

19 Pledged Bank Deposits

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
Pledged bank deposits	20,567	31,389	22,287	17,596

Pledged bank deposits represented bank deposits of the Group which were placed as guarantee deposits for issuing notes payable (Note 22(b)).

As at 31 December 2010, 2011 and 2012, and 31 March 2013, the effective interest rate on pledged bank deposits was 1.24%, 1.71% and 1.89% and 1.59% per annum. All pledged bank deposits were denominated in RMB and kept in bank accounts opened with banks in the PRC, where the remittance of funds is subject to the PRC foreign exchange control.

20 Combined Share Capital and Capital Reserve

Combined share capital and capital reserve as at each balance sheet date represents the combined share capital and capital reserve of the companies now comprising the Group after elimination of intercompany investment.

21 Other Reserves

Other reserves comprise exchange reserves and statutory reserves of the companies now comprising the Group.

In accordance with relevant laws and regulations of the PRC, Ludao PRC should make appropriation of not less than 10% of its net income after taxes to legal reserve. Further appropriation is optional when the accumulated statutory reserve is 50% or more of its registered capital.

Upon approval from the board of directors, the statutory reserves can be used to offset accumulated losses of Ludao PRC.

22 Trade and Other Payables

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
Trade payables (a)	17,572	19,322	19,059	21,202
Notes payable ((b) and (c))	48,536	72,652	66,973	58,668
Advance from customers	1,888	3,453	8,044	8,932
Other tax payables	131	2,313	765	661
Accrued expenses	3,007	2,427	2,602	2,894
Amount due to a related party (Note 28(b))	1,521	7,532	—	—
Amount due to Controlling Shareholder (Note 28(b))	10,178	10,024	17,209	9,065
Other payables	544	664	311	418
	83,377	118,387	114,963	101,840

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

22 Trade and Other Payables (Continued)

The carrying amounts of the trade and other payables are denominated in RMB.

The fair values of trade and other payables approximated to their carrying values as at 31 December 2010, 2011 and 2012, and 31 March 2013 respectively.

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

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
Up to 3 months	8,984	13,663	15,719	17,618
3 to 6 months	2,337	2,486	2,391	2,694
6 to 12 months	2,158	2,421	75	686
Over 12 months	4,093	752	874	204
	<u>17,572</u>	<u>19,322</u>	<u>19,059</u>	<u>21,202</u>

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

- (b) The notes payable represented non-interest bearing bank acceptance notes with maturity dates within six months, and were guaranteed by pledged bank deposits (Note 19) and secured by the property, plant and equipment and the land use rights of the Group (Notes 13 and 14) as at 31 December 2010, 2011 and 2012, and 31 March 2013, and secured by the Group's land use right and the buildings of 浙江綠伽包裝容器有限公司 (the "Zhejiang Lujia"), a related party of the Group (Note 28) as at 31 December 2010 and 2011, and guaranteed by Mr. Yu Yuerong and Ms. Wang Jinfei, a close family member of Mr. Yu Yuerong, amounting to RMB45,000,000 as at 31 December 2010, amounting to RMB50,000,000 as at 31 December 2011, amounting to RMB37,000,000 as at 31 December 2012 and 31 March 2013.
- (c) During the year ended 31 December 2009, the Group entered into credit agreements with three commercial banks in the PRC ("Endorsing Banks"). Under these arrangements, the Group obtained funds through issuing bank acceptance notes (within the credit limits stipulated by the Endorsing Banks and supported by the initial deposits made by the Group) to the suppliers but used certain of the proceeds for purposes other than for payment of the purchases from the suppliers. The total amount of funds obtained from such arrangement was RMB47,650,000 for the year ended 31 December 2009, out of which approximately RMB435,000 were paid to the relevant Endorsing Banks as procedure fees, and the balance of approximately RMB47,215,000 represented the funding for business operations obtained from such credit arrangement.

As at 31 December 2009, the balance of the amount of the above non-compliant notes payable financing arrangement amounted to RMB10,000,000, which was fully settled in May 2010 upon maturity.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

23 Deferred Income Tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. There are no offset amounts as at 31 December 2010, 2011 and 2012, and 31 March 2013.

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Deferred tax assets:				
— to be recovered within 12 months	270	291	264	264

The movements in deferred tax assets are as follows:

Deferred tax assets:

	Accrued expenses	Provision for impairment of trade and other receivables	Provision for impairment of inventories	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	272	20	170	462
Charged to the combined income statement	(102)	—	(90)	(192)
At 31 December 2010	170	20	80	270
At 1 January 2011	170	20	80	270
Credited/(charged) to the combined income statement	50	(7)	(22)	21
At 31 December 2011	220	13	58	291
At 1 January 2012	220	13	58	291
Charged to the combined income statement	—	—	(27)	(27)
At 31 December 2012 and 31 March 2013	220	13	31	264

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable.

There are no unrecognised deferred tax assets on tax losses and other temporary differences as at 31 December 2010, 2011 and 2012, and 31 March 2013.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

23 Deferred Income Tax (Continued)

Deferred tax liabilities:

Pursuant to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the CIT Law"), a 10% withholding tax will be levied on the dividends declared by companies established in the PRC from profits generated after 1 January 2008 to their foreign investors. As at 31 December 2010, 2011 and 2012, and 31 March 2013, the Group did not recognise deferred tax liabilities of RMB1,686,000, RMB3,713,000, RMB6,246,000 and RMB6,968,000 on approximately RMB16,860,000, RMB37,130,000, RMB62,460,000 and RMB69,680,000 respectively, of profits generated from Ludao PRC after 1 January 2008 as the directors confirmed that no dividends would be declared by Ludao PRC out of those profits in the foreseeable future considering the cash flow requirements of the Group.

24 Dividends

No dividend has been paid or declared by the Company since its incorporation or the companies now comprising the Group during each of the years ended 31 December 2010, 2011 and 2012, and each of the three months ended 31 March 2012 and 2013.

25 Notes to Combined Cash Flow Statements

(a) Reconciliation of profit before income tax to cash generated from/(used in) operations

	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	18,891	26,526	28,297	3,552	5,249
Adjustments for:					
Interest income (Note 10)	(998)	(462)	(877)	(256)	(175)
Interest expense (Note 10)	20	—	21	21	—
Depreciation of property, plant and equipment (Note 14)	2,604	2,828	2,890	687	797
Amortisation of land use right and intangible assets (Note 13 and 15)	56	72	85	21	33
Loss on disposal of property, plant and equipment — net	—	108	—	—	—
Reversal of provision for write-down of inventories — net (Note 16)	(600)	(159)	(176)	(176)	—
Changes in working capital:					
(Increase)/decrease in trade and other receivables	(6,826)	(49,850)	12,585	10,428	(13,010)
(Increase)/decrease in inventories	(426)	(2,677)	(2,558)	303	(5,539)
(Decrease)/increase in trade and other payables	(5)	26,820	(31,815)	(29,752)	(3,955)
Cash generated from/(used in) operations	<u>12,716</u>	<u>3,206</u>	<u>8,452</u>	<u>(15,172)</u>	<u>(16,600)</u>

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

25 Notes to Combined Cash Flow Statements (Continued)

(b) In the combined cash flow statements, proceeds from disposals of property, plant and equipment comprise:

	Property, plant and equipment				
	Year ended 31 December			Three months ended 31 March	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net book amount (<i>Notes 14</i>)	—	124	—	—	—
Loss on disposal	—	(108)	—	—	—
Proceeds from disposal	—	16	—	—	—

(c) Non-cash transactions

The principal non-cash transaction was the issue of shares as consideration for the acquisition in the Reorganisation described in Note 1.2 during the Relevant Periods.

26 Contingent Liabilities

As at 31 December 2010, 2011 and 2012, and 31 March 2013, the Group had no significant contingent liabilities.

27 Operating Lease Commitments

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2010, 2011 and 2012, and 31 March 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	—	103	261	253
Later than one year and not later than five years	—	131	642	581
	—	234	903	834

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

28 Related Party Transactions

The directors of the Company are of the view that the following companies and individuals were related parties that had transactions or balances with the Group during the Relevant Periods:

<u>Name of the related party</u>	<u>Principal business activities</u>	<u>Relationship with the Group</u>
Yiwu Weiwei Cosmetics Co. Ltd ("Yiwu Weiwei")	Manufacture and sales of flavors, fragrances and refined chemical products in the PRC	An entity controlled by a close family member of the Controlling Shareholder
Zhejiang Lujia	Manufacture and sales of cans of flavors and fragrances products in the PRC	An entity over which a close family member of the Controlling Shareholder has significant influence (*)
Mr. Yu Yuerong		Controlling Shareholder of the ultimate holding company of the Group
Ms. Wang Jinfei		A close family member of the Controlling Shareholder

* The directors of the Company consider Zhejiang Lujia no longer a related party of the Company upon the disposal of all equity interests on Zhejiang Lujia by the close family member of the Controlling Shareholder to an independent third party on 7 September 2012.

(a) Transactions with related parties during the Relevant Periods

Other than the related party transactions disclosed in Note 9, the following transactions with related parties were undertaken by the Group during the Relevant Periods.

	<u>Year ended 31 December</u>			<u>Three months ended 31 March</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Sales of goods to Yiwu Weiwei (a)	<u>3,822</u>	<u>6,223</u>	<u>15,221</u>	<u>7,124</u>	<u>195</u>
Purchases of raw material from Zhejiang Lujia (a) and (b)	<u>31,468</u>	<u>61,823</u>	<u>46,484</u>	<u>13,326</u>	<u>—</u>
Net advance to/(from) Mr. Yu Yuerong	<u>4,039</u>	<u>14,979</u>	<u>(37,728)</u>	<u>(36,311)</u>	<u>64</u>
Disposal of Ludao HK to Mr. Yu Yuerong	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Note (a) In the opinion of the directors of the Company, the above related party transactions were carried out at terms mutually negotiated between the Group and the respective related companies.

Note (b) Zhejiang Lujia is no longer a related party of the Company since 7 September 2012. Raw materials amounted to RMB46,484,000 were purchased from Zhejiang Lujia during the period from 1 January to 7 September 2012.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

28 Related Party Transactions (Continued)

(b) Balances with related parties

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Amounts due from related parties (<i>Note 17</i>)				
Ms. Wang Jinfei (<i>i</i>)	176	3,176	—	—
Yiwu Weiwei (<i>ii</i>)	5,005	6,554	2,912	2,790
	<u>5,181</u>	<u>9,730</u>	<u>2,912</u>	<u>2,790</u>
Amount due from Controlling Shareholder (<i>Note 17</i>)				
Mr. Yu Yuerong (<i>iii</i>)	23,798	38,623	8,080	—
Amount due to a related party (<i>Note 22</i>)				
Zhejiang Lujia (<i>i</i>)	1,521	7,532	—	—
Amount due to Controlling Shareholder (<i>Note 22</i>)				
Mr. Yu Yuerong (<i>iii</i>)	10,178	10,024	17,209	9,065

Note (i) As at 31 December 2010, 2011 and 2012, and 31 March 2013, unless otherwise stated, all of the balances with related parties are denominated in RMB. They were unsecured, interest-free and repayable on demand. Their fair values approximated to their carrying values. As at 31 December 2012 and 31 March 2013, the Group had deposits of RMB9,000,000 and RMB28,000,000 paid to Zhejiang Lujia respectively. The amount was included in "Prepayments and deposits" in Note 17 as Zhejiang Lujia was no longer a related party as at 31 December 2012 and 31 March 2013.

Note (ii) The receivables due from Yiwu Weiwei arise mainly from sale transactions and are due six months after the date of sales. The receivables are unsecured and interest-free. No provisions are made against these receivables. The ageing of these receivables is as follows:

	As at 31 December			As at
	2010	2011	2012	31 March
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Within 3 months	1,115	2,880	1,203	228
3 to 6 months	864	1,529	1,322	1,203
6 to 12 months	2,617	2,145	387	1,359
Over 12 months	409	—	—	—
	<u>5,005</u>	<u>6,554</u>	<u>2,912</u>	<u>2,790</u>

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)

28 Related Party Transactions (Continued)

(b) Balances with related parties (Continued)

As at 31 December 2010, 2011 and 2012, and 31 March 2013, trade receivables of RMB3,026,000, RMB2,145,000, RMB387,000 and RMB1,359,000 respectively were past due but not considered impaired.

	As at 31 December			As at 31 March
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
6 to 12 months	2,617	2,145	387	1,359
Over 12 months	409	—	—	—
	<u>3,026</u>	<u>2,145</u>	<u>387</u>	<u>1,359</u>

Note (iii) The balances with Controlling Shareholder are unsecured, interest-free and repayable on demand. The amount due from Controlling Shareholder during the Relevant Periods is as follows:

	Amount due from		
	At end of year/ period	At beginning of year/period	Maximum outstanding during the year/ period
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010			
Mr. Yu Yuerong	23,798	14,022	23,798
Year ended 31 December 2011			
Mr. Yu Yuerong	38,623	23,798	38,623
Year ended 31 December 2012			
Mr. Yu Yuerong	8,080	38,623	38,623
Three months ended 31 March 2013			
Mr. Yu Yuerong	—	8,080	8,080

No provision has been required as at 31 December in 2010, 2011 and 2012 for the above amounts.

(c) Key management compensation

Key management personnel are deemed to be the members of the board of directors of the companies comprising the Group which has the responsibility for planning, directing and controlling the activities of the Group. Details of key management compensation during the Relevant Periods have been disclosed in Note 9.

(d) Security by related party

The notes payable of the Group were secured by the land use rights and the buildings of Zhejiang Lujia as at 31 December 2010 and 2011, and guaranteed by Mr. Yu Yuerong and Ms. Wang Jinfei, amounting to RMB45,000,000 as at 31 December 2010, amounting to RMB50,000,000 as at 31 December 2011, and amounting to RMB37,000,000 as at 31 December 2012 and 31 March 2013.

II. NOTES TO THE FINANCIAL INFORMATION (CONTINUED)**29 Subsequent Events**

The Group has carried out and completed the Reorganisation steps as described in Note 1.2 of Section II in preparation for the listing.

III. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 25 May 2012. As at 31 December 2012, the Company had cash and cash equivalents of RMB8 and an amount due to a subsidiary of RMB126,420, representing share capital of RMB8 and accumulated losses of RMB126,420. Except for this, the Company had no other assets, liabilities or distributable reserves as at that date. As at 31 March 2013, the Company had cash and cash equivalents of RMB8 and an amount due to a subsidiary of RMB126,000, representing share capital of RMB8 and accumulated losses of RMB126,000. Except for this, the Company had no other assets, liabilities or distributable reserves as at that date.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2013 up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2013.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this Appendix II does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of our Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the net tangible assets of our Group attributable to owners of our Company as at 31 March 2013.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 31 March 2013 or at any future dates after the Share Offer. It is prepared based on the audited combined net tangible assets of the Group as at 31 March 2013 as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets do not form part of the Accountant's Report.

	Audited combined net tangible assets attributable to owners of the Company as at 31 March 2013	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets attributable to owners of the Company as at 31 March 2013	Unaudited pro forma adjusted net tangible assets per share	Unaudited pro forma adjusted net tangible assets per share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$
Based on the Offer					
Price of HK\$0.72 per share	<u>96,267</u>	<u>50,588</u>	<u>146,855</u>	<u>0.37</u>	<u>0.46</u>
Based on the Offer					
Price of HK\$0.89 per share	<u>96,267</u>	<u>63,780</u>	<u>160,047</u>	<u>0.40</u>	<u>0.50</u>

Notes:

- (1) The audited combined net tangible assets attributable to owners of the Company as of 31 March 2013 is extracted from the section headed "Appendix I — Accountant's Report" in this prospectus, which is based on the audited combined net assets of the Group attributable to owners of the Company as of 31 March 2013 of approximately RMB97,281,000 with an adjustment for the intangible assets as at 31 March 2013 of approximately RMB1,014,000.

- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.72 per share and HK\$0.89 per share, being low and high end of the indicative Offer Price range, after deduction of the underwriting fees and other related expenses (excluding approximately HK\$8.90 million listing expenses and approximately HK\$2.84 million share issuance costs which have been accounted for prior to 31 March 2013) payable by our Company and takes no account of any shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options granted or to be granted under the Share Option Schemes or any shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate. For the purpose of the estimated net proceeds from the share offer, the translation of RMB into HK\$ was at the rate of RMB1.00 to HK\$1.25.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 400,000,000 Shares are in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 March 2013, but takes no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option or any options granted or to be granted under the Share Option Schemes or any shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2013.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS**TO THE DIRECTORS OF CHINA LUDAO TECHNOLOGY COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Ludao Technology Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 March 2013, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 in Appendix II of the Company's prospectus dated 30 September 2013, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 March 2013 as if the proposed initial public offering had taken place at 31 March 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information as at 31 March 2013, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 March 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 September 2013

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Stirling Appraisals Limited, an independent valuer, in connection with its valuation as at 30 June 2013 of the property interests of the Group.



Stirling Appraisals Limited
Unit A, 15th Floor,
Wing On Cheong Building,
No. 5 Wing Lok Street, Central,
Hong Kong

30 September 2013

The Directors
China Ludao Technology Company Limited
No. 5 Sanmen Industry Zone
Taizhou City
Zhejiang Province
The PRC

Dear Sirs,

INSTRUCTIONS

We refer to your instructions for us to value the properties held or leased by China Ludao Technology Company Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") located in the People's Republic of China (the "PRC"). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 June 2013 (the "date of valuation") for the purpose of incorporation in an Initial Public Offer Document.

BASIS OF VALUATION

Our valuation of each of the property interests is our opinion of its Market Value which we would define as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

PROPERTY CATEGORISATIONS

In the course of our valuations, the portfolio of properties of the Group is categorized into the following groups:

Group I — Properties held and occupied by the Group in the PRC

Group II — Properties leased by the Group in the PRC

VALUATION METHODOLOGY

In valuing Property No. 1 in Group I, we have adopted the Depreciated Replacement Cost Approach due to the nature of the buildings and structures of the property. Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. This basis has been used due to the lack of an established market upon which to base comparable transactions. This approach generally furnishes the most reliable indication of values for property in the absence of a known market based on comparable sales. This opinion of value does not necessarily represent the amount that might be realized from the disposition of the property in the open market and is subject to adequate potential profitability of the business.

For the remaining properties in Group I, we have valued them on an open market basis by the Direct Comparison Approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market.

We have attributed no commercial value to the properties in Groups II which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or otherwise due to the lack of substantial profit rents.

TITLE INVESTIGATION

We have been provided with copies of title documents and have been advised by the Group that no further relevant documents have been produced. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuations, we have relied upon the advice and information given by the Company’s PRC Legal Adviser — 中倫律師事務所 (Zhong Lun Law Firm) regarding the titles of the properties. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances, such as atypical financing, sale and leaseback arrangement, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In addition, we have relied on the advice given by the Group that the Group has valid and enforceable title to the properties which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the properties included within the attached valuation certificates. However, we have not carried out investigations on site to determine the suitability of the soil conditions and the services etc. During the course of our inspections, we did not note any serious defects. Further, no structural surveys have been conducted and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects. No tests were carried out on any of the services.

We have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the properties and all other relevant matters.

We have not carried out detailed on-site measurement to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimension, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

The site inspection was carried out in January 2013 by Mr. Brian Li. He is a member of RICS and HKIS who is a qualified valuer.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your advice that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values. Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (2012 Edition) published by the Hong Kong Institute of Surveyors and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,
For and on behalf of
Stirling Appraisals Limited
Li Wing Kang
BSc.(Est. Man), MRICS, MHKIS, RPS(GP)
Associate Director

Note: Mr. Li Wing Kang, BSc.(Est. Man.) MRICS, MHKIS, RPS(GP) has been a qualified valuer and has about 30 years' experience in valuations of properties in Hong Kong and has about 15 years' experience in the valuation of properties in the People's Republic of China.

SUMMARY OF VALUES

Group I — Properties held and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Market Value in existing state as at 30 June 2013</u>
		RMB
1.	A parcel of land and industrial buildings and structures located at No. 5 Gong Ye Main Road Hai You Town Feng Keng Industrial Zone Sanmen County Taizhou City Zhejiang Province The PRC	54,970,000
2.	2 residential units in Room Nos. 1317 and 1318 Jinling Paul Palace (Sanmen China) No. 18 Binhai Road New City Area Sanmen County Taizhou City Zhejiang Province The PRC	2,988,000
	Sub-total:	<u><u>57,958,000</u></u>
Group II — Properties leased by the Group in the PRC		
3.	Four leased properties located in Sanmen County Taizhou City Zhejiang Province The PRC	No Commercial Value
	Sub-total:	<u>Nil</u>
	Total:	<u><u>57,958,000</u></u>

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2013 RMB
1.	A parcel of land and industrial buildings and structures located at No. 5 Gong Ye Main Road Hai You Town Feng Keng Industrial Zone Sanmen County Taizhou City Zhejiang Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 28,494.21 sq.m. and 11 buildings and various ancillary structures which were completed in about 2003 to 2008.</p> <p>The 11 buildings have a total gross floor area (“GFA”) of approximately 20,922 sq.m.</p> <p>The buildings include an office building, workshops and ancillary structures.</p> <p>The structures mainly include fence wall, gates and fountain.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 8 October 2052 for industrial use.</p>	The property is occupied by the Group for industrial purpose.	54,970,000

Notes:

1. Pursuant to a State-Owned Land Use Rights Certificate — San Guo Yong (2003) Di No. 0002385 dated 30 October 2003 issued by the People’s Government of Sanmen County (三門縣人民政府), the land use rights of a parcel of land with a site area of approximately 28,494.21 sq.m. have been granted to Taizhou Ludao Cosmetics Co., Ltd (台州綠島化妝品有限公司) (now known as Zhejiang Ludao Technology Co., Ltd (浙江綠島科技有限公司) (“Ludao PRC”), a non-direct wholly-owned subsidiary of the Company, for a term expiring on 8 October 2052 for industrial use.
2. Pursuant to 11 Building Ownership Certificates — San Fang Quan Zheng Hai You Zi Di Nos. 201208525 to 201208534 and 201208537 dated 9 November 2012 and issued by Sanmen County Construction Planning Bureau (三門縣建設規劃局), 11 buildings in the property with a total gross floor area of approximately 20,922 sq.m. are owned by Ludao PRC.
3. The opinion of the PRC Legal Adviser contains, *inter alia*, the following:
 - a. Ludao PRC has legally obtained both the land use rights and building ownership rights of the property;
 - b. Ludao PRC has the rights to use, lease, mortgage, transfer or otherwise dispose of the property for the remaining term of the above- said land use rights;
 - c. All land premium and other relevant fees have been settled in full; and

- d. Pursuant to Pledge Registration Certificate (抵押登記証) — San Gong Shang Zi Di No. 10157, the property is subject to pledge in favor of Industrial Bank Co., Ltd.
4. Since the property contributes a significant portion of revenue to the Group, we are of the opinion that the property is regarded the material property held by the Group:

Details of the material property:

- | | |
|---|---|
| (a) General description of location of the property: | The property is located in Feng Keng Industrial Zone approximately 5 km to the southeast of Haiyou Town in Sanmen County. The area is close to the highway which is connected to Ningbo city, the provincial city of Zhejiang Province. |
| (b) Details of encumbrances, liens, pledges, mortgages against the property: | The property is subject to pledge in favor of Industrial Bank Co., Ltd. |
| (c) Environmental Issue: | No environmental study is carried out. |
| (d) Details of investigations, notices, pending litigation, breaches of law or title defects: | Nil. |
| (e) Future plans for construction, renovation, improvement or development of the property: | As advised by the Company, there is presently no intention to re-develop the property in the next 12 months from the date of this document. |

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2013 RMB
2.	2 residential units in Room Nos. 1317 and 1318 Jinling Paul Palace (Sanmen China) No. 18 Binhai Road New City Area Sanmen County Taizhou City Zhejiang Province The PRC	The property comprises 2 residential units on Level 13 of a 29 storey hotel building completed in 2008. The property has a total gross floor area (“GFA”) of approximately 197.05 sq.m. (approximately 2,121.04 sq.ft.). The land use rights of the property have been granted for a term expiring on 30 April 2044 for commercial use.	The property is occupied by the Group for residential purpose.	2,988,000

Notes:

1. Pursuant to a State-Owned Land Use Rights Certificates — San Fen Ge 2010 Nos. 02817 and 02824 dated 18 September 2010 and issued by the People’s Government of Sanmen County (三門縣人民政府), the land use rights of the property have been granted to 三門縣英超房地產開發有限公司 for commercial use for a term expiring on 30 April 2044.
2. Pursuant to 2 Building Ownership Certificates San Fang Quan Hai You Zi Di Nos. 201201085 and 201201088 issued by Sanmen County Construction Planning Bureau (三門縣建設規劃局) dated 7 May 2012, the building ownership rights of the property have been granted to Zhejiang Ludao Technology Co., Limited (“Zhejiang Ludao”). The salient information of the above-mentioned certificates are as follows:

Unit No.	Building Ownership Certificates No.	Floor Area (sq.m.)
1317	201201085	136.12
1318	201201088	60.93
Total:		<u>197.05</u>

3. The opinion of the PRC Legal Adviser contains, *inter alia*, the following:
 - a. Zhejiang Ludao has legally obtained both the land use rights and building ownership rights of the property; and
 - b. Zhejiang Ludao has the rights to use, lease, mortgage, transfer or otherwise dispose of the property for the remaining term of the above said land use rights.

VALUATION CERTIFICATE

Group II — Properties leased by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2013 HK\$
3.	Four leased properties located in Sanmen County Taizhou City Zhejiang Province The PRC	<p>The properties comprise four residential units with a total gross floor area of approximately 500.63 sq.m. which were mainly completed in 2005 to 2008.</p> <p>The properties are rented to the Group from various independent third parties (the “Lessors”) for various terms with the latest expiry date on 8 July 2014.</p>	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to various tenancy agreements, four properties with a total gross floor area of approximately 500.63 sq.m. are leased to the Group from various independent third parties for various terms with the latest expiry date on 8 July 2014 for residential use.
2. We have been provided with a legal opinion on the legal title ownership and the legality of tenancy agreements to the properties issued by the Company’s PRC Legal Advisers, which contains, *inter alia*, the following:
 - a. Three out of the four leased properties have obtained Building Ownership Certificates and one has not obtained Building Ownership Certificate. Therefore the Group can enjoy legal occupation of three leased properties. However for the one property without Building Ownership Certificate or Construction Project Planning Permit, the legal opinion cannot ascertain the validity of the tenancy. The Group will be subject to risk of discontinuation of the tenancy. However the Group has confirmed that since the property is temporarily occupied by a limited number of staff, there will not be major adverse impact to the operation of the Group should the occupation of the property be discontinued;
 - b. The tenancy agreements have not been registered with relevant local authorities;
 - c. The aforesaid absence of registration will not affect the validity of the tenancy agreements nor the legal occupation of the properties; however, according to the relevant PRC laws and regulations, the local relevant authorities may require the concerned parties to rectify within a specific time limit, failure of which might result in a maximum fine of RMB10,000 per lease.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 May 2012 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 16 September 2013. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share

certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other

special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or

member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and

employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) *Register of Directors and officers*

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the

issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution — majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised

representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its

discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(I) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of

members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the

Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 25 May 2012 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;

- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully

paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 19 June 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice

objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection — Documents Available for Inspection" of this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 May 2012. Our Company has established a principal place of business in Hong Kong at Flat B, 17th Floor, Harvest Building, 29–37 Wing Kut Street, Central, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 24 June 2013. Mr. Li Wai See (李偉思) who resides at Flat B, 29/F, Block 10, Monte Vista, Ma On Shan, New Territories, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. As our Company is incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution, which comprises the Memorandum of Association and the Articles. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

- (a) Our Company was incorporated on 25 May 2012 with an authorized share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each, of which 1 Share was allotted and issued fully paid to Reid Services Limited at par and was transferred to Ludao Investments at par on 25 May 2012. On the same date, Ludao Investments and Neland subscribed for 900 Shares and 99 Shares of the Company respectively at par.
- (b) On 16 September 2013, our Company issued and allotted 8,109 Shares and 891 Shares (all credited as fully paid) to Ludao Investments and Neland respectively pursuant to the Share Swap Agreement, as consideration for the acquisition by the Company of the entire issued share capital of Ludao (BVI) from Ludao Investments and Neland.
- (c) On 16 September 2013, the authorised share capital of our Company was increased from HK\$390,000 to HK\$20,000,000 by the creation of an additional 1,961,000,000 new Shares pursuant to a resolution in writing passed by the Shareholders referred to in the paragraph headed “Written resolutions of the Shareholders” of this Appendix.

Assuming the Share Offer becomes unconditional, immediately following completion of the Share Offer and Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$20,000,000 divided into 2,000,000,000 Shares and the issued share capital of our Company will be HK\$4,000,000 divided into 400,000,000 Shares, all fully paid or credited as fully paid, with 1,600,000,000 Shares remaining unissued.

Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of the Shareholders” in this Appendix and the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme,

our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Changes in share capital of the subsidiaries of our Company

Our Company's subsidiaries are referred to in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed "Corporate reorganisation" of this Appendix, there has been no other change to the share capital of any of the subsidiaries of our Company within the two years immediately prior to the date of this prospectus.

4. Written resolutions of the Shareholders

Pursuant to the written resolutions of the Shareholders passed on 16 September 2013, among other things:

- (a) our Company approved and adopted the Articles, the terms of which are summarized in Appendix IV to this prospectus;
- (b) the authorised share capital of our Company was increased from HK\$390,000 to HK\$20,000,000 by the creation of an additional of 1,961,000,000 Shares of HK\$0.01 each, each ranking *pari passu* with the existing Shares in all respects;
- (c) conditional on the Listing Committee granting listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus including any Shares which may be issued upon the exercise of the Offer Size Adjustment Option or options which may be granted under the Share Option Scheme, on the obligations of the Underwriter under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (i) the Share Offer and the Offer Size Adjustment Option was approved and our Directors were authorised to allot and issue the Shares pursuant to the Share Offer and such number of Shares as may be allotted and issued upon the exercise of the Offer Size Adjustment Option, in each case to rank *pari passu* with the then existing Shares in all respects;
 - (ii) the Share Option Scheme was approved and adopted with such additions, amendments or modifications thereto as may be approved by our Directors or any committee of the Board in their absolute discretion and the Directors or any committee of the Board were authorised, at its absolute discretion, to implement

the Share Option Scheme, to grant options thereunder and to allot, issue and deal with the Shares thereunder and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme; and

- (iii) the Capitalisation Issue was approved and conditional further on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK\$2,999,900 standing to the credit of the Company's share premium account towards paying up in full at par 299,990,000 Shares for allotment and issue to holders of Shares whose names appeared on the register of members of our Company at the close of business on 16 September 2013 (or as they may direct) in proportion as nearly as may be without involving fractions to their then existing shareholdings in the Company and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares (other than the Capitalisation Issue) and the Directors or any committee of the Board were authorised to give effect to the Capitalisation Issue.

- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend or similar arrangement in accordance with the Articles, or the exercise of the Offer Size Adjustment Option or an issue of Shares pursuant to the exercise of options which may be granted under the Share Option Scheme, Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately upon completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of our Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first;

- (e) a general unconditional mandate was given to our Directors authorizing the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules (or of such other stock exchange), of Shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately upon completion of the Share Offer and the Capitalisation Issue (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any

applicable law of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first; and

- (f) the general unconditional mandate as mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme.

5. Corporate reorganisation

Our Group has undergone a Reorganisation in preparation for Listing which involved the follow steps:

- (a) On 25 May 2012, our Company was duly incorporated in the Cayman Islands, with 1 Share allotted and issued fully paid to Reid Services Limited and the same was transferred to Ludao Investments. On the same date, Ludao Investments and Neland subscribed for 900 Shares and 99 Shares of the Company respectively at par.
- (b) On 21 November 2012, Ludao (BVI) disposed of 1 share of HK\$1.00 each of Ludao (HK), which represents the entire issued share capital of Ludao (HK), to Mr. Yu at the consideration of HK\$1, which was equivalent to the par value of the share.
- (c) On 16 September 2013, our Company issued and allotted 8,109 Shares and 891 Shares (all credited as fully paid) to Ludao Investments and Neland respectively pursuant to the Share Swap Agreement, as consideration for the acquisition by the Company of the entire issued share capital of Ludao (BVI) from Ludao Investments and Neland.

6. Repurchase by our Company of our own securities

This paragraph contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) *The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.*

(i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of the Shareholders passed on 16 September 2013, the Repurchase Mandate was given to our Directors authorizing the Directors to exercise all powers of the Company to purchase the Shares as described above in the paragraph headed "Written resolutions of the Shareholders" in this Appendix.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. Our Company may not repurchase our own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or out of the Company's share premium account before or at the time the Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) *Connected parties*

The Listing Rules prohibit the Company from knowingly repurchasing the Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder of the Company or any of the subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to the Company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) *Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue after completion of the Capitalisation Issue and Share Offer (taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 40,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) *Funding of repurchase*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(e) *General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with Rule 26 of

the Takeovers Code as a result of any such increase. Save as disclosed above, the Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

(a) Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of the Company taken as a whole:

- (a) the instrument of transfer and bought and sold notes dated 21 November 2012 signed by Ludao (BVI) as transferor and Mr. Yu as transferee in relation to the transfer of 1 share of HK\$1.00 each of Ludao (HK) at the consideration of HK\$1;
- (b) the Share Swap Agreement;
- (c) the Deed of Non-competition;
- (d) a Deed of Indemnity dated 27 September 2013 executed by the Controlling Shareholders in favour of the Company (for itself and as trustee for its subsidiaries) containing indemnities referred to in the paragraph headed “Tax and other indemnities” in this Appendix; and
- (e) the Public Offer Underwriting Agreement.

C. INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

1. Trademark

- (a) As at the Latest Practicable Date, our Group has registered the following trademarks in Hong Kong which we believe to be material to our business:

<u>Trademark</u>	<u>Registered Owner</u>	<u>Class (Note 1)</u>	<u>Registration Number</u>	<u>Registration Date</u>	<u>Expiry Date</u>
	Ludao (PRC)	3	301062693	29 February 2008	28 February 2018
绿岛	Ludao (PRC)	3	301062729	29 February 2008	28 February 2018
LUDAO	Ludao (PRC)	3,5	301062684	29 February 2008	28 February 2018
	Ludao (PRC)	3	301062701	29 February 2008	28 February 2018
GREEN ISLAND	Ludao (PRC)	3	301062710	29 February 2008	28 February 2018

- (b) As at the Latest Practicable Date, our Group has registered the following trademarks in the PRC which we believe to be material to our business:

<u>Trademark</u>	<u>Registered Owner</u>	<u>Class (Note 1)</u>	<u>Registration Number</u>	<u>Registration Date</u>	<u>Expiry Date</u>
白鹰	Ludao (PRC)	5	1297709	28 July 2009	27 July 2019
鹰王	Ludao (PRC)	5	1297710	28 July 2009	27 July 2019
吉尔佳	Ludao (PRC)	5	4908960	14 February 2009	13 February 2019
	Ludao (PRC)	3	6733106	7 April 2010	6 April 2020
	Ludao (PRC)	5	6733107	21 May 2010	20 May 2020
	Ludao (PRC)	3	6733108	7 April 2010	6 April 2020
吉尔佳	Ludao (PRC)	3	7340258	14 August 2010	13 August 2020
吉尔佳	Ludao (PRC)	5	7340299	21 November 2010	20 November 2020

- (c) As at the Latest Practicable Date, our Group has registered the following trademarks in India which we believe to be material to our business:

<u>Trademark</u>	<u>Registered Owner</u>	<u>Class</u> <i>(Note 1)</i>	<u>Registration Number</u>	<u>Registration Date</u>	<u>Expiry Date</u>
	Ludao (PRC)	5	1972089	28 May 2010	27 May 2020
	Ludao (PRC)	5	1649443	4 February 2008	3 February 2018

2. Patent

- (a) As at the Latest Practicable Date, our Group has registered the following patents with the State Intellectual Property Bureau in the PRC which we believe to be material to our business:

<u>Patent</u>	<u>Registered Owner</u>	<u>Type</u>	<u>Patent Number</u>	<u>Date of Application</u>	<u>Expiry Date</u>
一種可鎖的氣霧劑產品組合蓋	Ludao (PRC)	Utility Model Patent	ZL201020107429.8	25 January 2010	24 January 2020
集組合頂、扳扣及嵌件於一體的氣霧劑連體蓋	Ludao (PRC)	Utility Model Patent	ZL201020002481.7	14 January 2010	13 January 2020
透氣量可調式香料盒	Ludao (PRC)	Utility Model Patent	ZL201120008148.1	12 January 2011	11 January 2021
微透式幽香型香精瓶	Ludao (PRC)	Utility Model Patent	ZL201120008162.1	12 January 2011	11 January 2021
安全加液式香水瓶	Ludao (PRC)	Utility Model Patent	ZL201120008164.0	12 January 2011	11 January 2021
織物除味除污垢劑	Ludao (PRC)	Invention Patent	ZL201010171495.6	13 May 2010	12 May 2030

3. Domain name

As at the Latest Practicable Date, our Group has registered the following domain name:

<u>Domain Name</u>	<u>Registrant</u>	<u>Duration</u>
ludao.cn.com	Ludao (PRC)	22 February 2008 – 22 February 2016

D. DISCLOSURE OF INTERESTS**1. Interests and short positions of our Directors and chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations**

Immediately following completion of the Share Offer and the Capitalisation Issue, taking no account of the Shares to be issued pursuant to the Offer Size Adjustment Option and options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or will be required, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange, will be as follows:

(a) Long position in Shares

<u>Name of Director</u>	<u>Capacity/nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding interests of our Company</u>
Mr. Yu	Interest in a controlled corporation (<i>Note</i>)	270,300,000 Shares	67.575%

Note: Ludao Investments is beneficially owned as to 100% by Mr. Yu. Accordingly, Mr. Yu is deemed to be interested in the Shares held by Ludao Investments under the SFO.

(b) Long position in Ludao Investments, an associated corporation of the Company

<u>Name of Director</u>	<u>Capacity/Nature of Interest</u>	<u>Approximate percentage of shareholding interests in Ludao Investment</u>
Mr. Yu	Beneficial owner	100%

2. Interests and short positions of Substantial Shareholders in the Shares, and underlying Shares of the Company

So far as it is known to our Directors and save as disclosed in this prospectus, immediately following completion of the Share Offer and the Capitalisation Issue, and taking no account of any Shares to be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme, the following persons (not being a Director or

chief executive of the Company) will have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(I) Long position in Shares

<u>Name</u>	<u>Capacity/nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interests</u>
Ludao Investments (note 1)	Beneficial owner	270,300,000 Shares	67.575%
Neland (note 2)	Beneficial owner	29,700,000 Shares	7.425%
China Flavors (note 2)	Interest in controlled corporation	29,700,000 Shares	7.425%
Creative China Limited (note 2)	Interest in controlled corporation	29,700,000 Shares	7.425%
Mr. Wang Ming Fan (note 2)	Interest in controlled corporation	29,700,000 Shares	7.425%

Notes:

1. Ludao Investments is beneficially owned as to 100% by Mr. Yu. Accordingly, Mr. Yu is deemed to be interested in the Shares held by Ludao Investments under the SFO.
2. Neland is beneficially owned as to 100% by China Flavors, which is in turn owned as to 51.62% by Creative China Limited. Mr. Wang Ming Fan is interested in 41.19% of the issued capital of Creative China Limited. Accordingly, each of China Flavors, Creative China Limited and Mr. Wang Ming Fan is deemed to be interested in the Shares held by Neland under the SFO.

3. Particulars of service contracts

Each of the executive Directors has entered into a service agreement with our Company. The terms and conditions of each of such service agreements are similar in all material aspects and are briefly described as follows:

- (a) Each service agreement is for an initial term of 3 years commencing from the Listing Date and shall continue thereafter unless and until it is terminated by our Company or our Director giving to the other not less than 3 months' prior notice in writing.

- (b) The annual remuneration (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) payable to Mr. Yu, Mr. Han Jianhua (韓劍華) and Ms. Pan Yili (潘伊莉) under their respective service agreements shall be approximately RMB99,000, RMB110,000 and RMB102,000 respectively.
- (c) Each of the executive Directors may be entitled to, if so recommended by our Remuneration Committee and approved by the Board at its absolute discretion, a discretionary bonus, the amount of which is determined with reference to the operating results of our Group and the performance of the executive Director provided that the aggregate amount of bonuses payable to all the executive Directors in respect of any financial year shall not exceed 5% of the audited consolidated net profits of our Group after taxation and minority interests but before extraordinary items attributable to shareholders of the Company for the relevant financial year.
- (d) Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the remuneration payable to himself.

Each of the independent non-executive Directors has entered into a letter of appointment with our Company under which each of them is appointed for a period of three years commencing from the Listing Date. The annual director's fee payable to each of Mr. Wong Chi Wai (黃馳維), Ms. Cho Mei Ting (曹美婷) and Mr. Ruan Lianfa (阮連法) under their respective letter of appointment shall be HK\$180,000. Save for the annual director's fees mentioned above, none of the independent non-executive Directors is expected to receive any other remuneration for holding his office as an independent non-executive Director.

Save as disclosed above, none of our Directors has or is proposed to have any service agreement with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. Remuneration of Directors

During the Track Record Period, our Directors confirmed that the Group's remuneration policy for the Directors and senior management members of the subsidiaries were based on their experience, level of responsibility and general market conditions. Any discretionary bonus was linked to the business performance of our Group and the individual performance of such Directors and senior management members. Our Company intends to adopt the same remuneration policy after the Listing, subject to the review by and the recommendations of our remuneration committee.

For the three years ended 31 December 2010, 2011 and 2012 and for the three months ended 31 March 2013, the aggregate emoluments (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) paid by our Group to the Directors were approximately RMB341,000, RMB276,000, RMB311,000 and RMB79,000 respectively.

Further information in respect of the Directors' emoluments is set out in Appendix I to this prospectus. It is expected that the aggregate emoluments (excluding payment pursuant to any discretionary bonus or granting of share options) payable by our Group to our Directors (including the independent non-executive Directors) for the year ending 31 December 2013 will be approximately RMB419,000. For the year ending 31 December 2012, there will be no material increment in the remuneration of our executive Directors (excluding payment pursuant to any of the discretionary bonus or granting of share options) as compared to 31 December 2012.

Save as disclosed in Appendix I to this prospectus, none of our Directors received any remuneration or benefits in kind from our Group during the Track Record Period.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) so far as our Directors are aware, none of our Directors or chief executive has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) immediately following the completion of the Share Offer and assuming that the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme are not exercised, which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to the Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, once the Shares are listed;
- (b) so far as our Directors are aware, none of our Directors and experts referred to under the heading "Consents of experts" of this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the 2 years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of our Directors and experts referred to under the heading "Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of the Group, excluding contracts which are determinable by the employer within 1 year without payment of compensation other than statutory compensation;
- (e) taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme, our Directors are not aware of any person, not being a Director of the

Company, who will, immediately following completion of the Share Offer and the Capitalisation Issue, be interested in or has short positions in the Shares or underlying shares of the Company which have to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once the Shares are listed, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;

- (f) none of the experts referred to under the heading “Consents of experts” of this Appendix has any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (g) none of our Directors, their Associates or any shareholder of the Company (which to the knowledge of our Directors owns more than 5% of our Company’s issued share capital) has any interest in our Group’s five largest suppliers and five largest customers.

6. Agency fees or commissions received

Information on the agency fees or commissions received by the Underwriter is set out in section headed “Underwriting” of this prospectus.

Save as disclosed herein and in the section headed “Directors, Senior Management and Staff” and the Accountant’s Report set out in Appendix I to this prospectus, none of the Directors, or the experts named in the paragraph headed “Qualifications of experts” in this Appendix had received any agency fee, commissions, discounts, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group from our Group within the two years preceding the date of this prospectus.

7. Related party transactions

For details of the related party transactions of our Group entered into within two years immediately preceding the date of this prospectus, please refer to the Accountant’s Report set out in Appendix I to this prospectus and the section headed “Connected Transactions” in this prospectus.

E. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the Shareholders passed on 16 September 2013 are set out below:

1. Purpose of the Share Option Scheme

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that Eligible Participants (as defined below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives:

- (a) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of our Group; and
- (b) attract and retain or otherwise maintain ongoing business relationships with the Eligible participants whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, “Eligible Participants” means any person who satisfies the eligibility criteria in paragraph 2 below.

2. Who may join and basis of eligibility

The Board may at its discretion grant options to:

- (i) any Eligible Employees. “**Eligible Employees**” means employees (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital (“**Invested Entity**”);
- (ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
- (iii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iv) any customer of any member of our Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, options may be granted to any company wholly owned by one or more Eligible Participants.

The basis of eligibility of any participant to be granted any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

3. Subscription Price of Shares

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date of the relevant option, which must be a day on which the Stock Exchange is open for the business of dealing in securities (a "Trading Day"); (ii) an amount equivalent to the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 Trading Days immediately preceding the offer date of the relevant option; and (iii) the nominal value of a Share on the offer date. For the purpose of calculating the exercise price where our Company has been listed for less than five Trading Days, the Offer Price of the Shares shall be used as the closing price of the Shares for any Trading Days falling within the period before the Listing Date.

4. Grant of options and acceptance of offers

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favor of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Eligible Participant.

5. Maximum number of Shares

- (i) Subject to sub-paragraphs (ii) to (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (i.e. 40,000,000 Shares) (the "Scheme Mandate Limit") unless approved by the shareholders of our Company pursuant to sub-paragraph (iii) below. Options lapsed in accordance with the terms of the scheme(s) will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (ii) Subject to sub-paragraphs (iii) and (iv) below, the Scheme Mandate Limit may be renewed by the shareholders of our Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by the Shareholders of our Company. Upon such renewal, all options granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit

as renewed. A circular must be sent to the shareholders of our Company containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.

- (iii) Subject to sub-paragraphs (iv) below, the Board may seek separate shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to the shareholders of our Company containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (iv) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group must not, in aggregate, exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by our Group if such grant will result in the said 30% limit being exceeded.

6. Maximum entitlement of each participant

No option shall be granted to any Eligible Participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to the following requirements:

- (i) approval of the Shareholders of our Company at general meeting, with such Eligible Participant and its associates abstaining from voting;
- (ii) a circular in relation to the proposal for such further grant must be sent by our Company to its Shareholders with such information from time to time as required by the Listing Rules;
- (iii) the number and terms of the options to be granted to such proposed grantee shall be fixed before the Shareholders' approval mentioned in (i) above; and
- (iv) for the purpose of calculating the minimum exercise price for the Shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of such options.

7. Requirements on granting options to certain connected persons

Any grant of options to any director, chief executive or substantial shareholder of our Company, or any of their respective associates, must be approved by the independent non-executive Directors (excluding an independent non-executive director who or whose associate is a proposed grantee).

Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of all options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the total number of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of such grant, in excess of HK\$5 million,

such further grant of options must be approved by the Shareholders of our Company on a poll in a general meeting where all connected persons of our Company must abstain from voting in favor at such general meeting. Our Company will send a circular to the shareholders containing the information required under the Listing Rules.

8. Restrictions on the time of grant of options

No option shall be granted after inside information has come to the knowledge of our Company until our Company has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. "Inside information" has the meaning defined in the SFO.

The Board may not make any offer to an Eligible Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

9. Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of early termination thereof, and provided that the Board may determine the minimum period for which an Option has to be held or other restrictions before its exercise.

The grantee shall not exercise an option to the extent that the public float of our Company will be less than 25% (or such higher percentage as required by the Stock Exchange or the Listing Rules) of the issued share capital of our Company immediately after the issue and allotment of the Shares upon such exercise of the option.

10. Performance targets

Save as determined by the Board and provided in the offer of grant of the options, there is no performance target that must be achieved before the options can be exercised.

11. Ranking of Shares

The Shares to be allotted and issued upon exercise of an option shall be subject to all the provisions of the Articles of our Company for the time being in force and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the allotment date. Any Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of our Company as the holder thereof.

12. Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favor of any third party over or in relation to any option or enter into any agreement so to do.

13. Rights on cessation of employment

- (i) In the event of death of the grantee (being an individual) before exercising the option in full, his personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his death and not already exercised) within a period of 12 months following his death or such longer period as the Board may determine.

- (ii) In the event of the grantee who is an Eligible Employee ceasing to be an Eligible Employee for any reason other than his death, or the termination of his employment pursuant to paragraph 18(v), the grantee may exercise the option (to the extent exercisable as at the date of such cessation and not already exercised) within 30 days following such cessation or such longer period as the Board may determine.

14. Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company while an option remains exercisable or this scheme remains in effect, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate so far as unexercised; and/or the exercise price; and/or the method of exercise of the options; and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must be made in compliance with the Listing Rules, give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled and shall be made on the basis that the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than nominal value provided that in such circumstance, the exercise price shall be reduced to the nominal value. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial advisor of our Company or the auditors of our Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

15. Rights on a general offer

If a general or partial offer (whether by way of takeover offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror), our Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the offer becomes or is declared unconditional and not already exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

16. Rights on winding-up

In the event notice is given by our Company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to the grantee and the

grantee shall be entitled to exercise all or any of his/her options (to the extent exercisable as at the date of the notice of meeting and not already exercised) at any time not later than 2 Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting of our Company to consider the winding-up and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

17. Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the restructuring, reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme, and thereupon the grantee shall be entitled to exercise all or any of his/her option(s) (to the extent which has become exercisable as at the date of the notice and not already exercised) at any time not later than 2 Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

18. Lapse of options

An option shall automatically lapse and not be exercisable on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of any of the periods referred to in paragraph 13 above;
- (iii) subject to paragraph 16 above, the date of the commencement of the winding-up of our Company;
- (iv) subject to the scheme becoming effective, the expiry of the period referred to in paragraph 17 above;
- (v) the date on which the grantee who is an Eligible Employee ceases to be an Eligible Employee by reason of summary dismissal or being dismissed for misconduct or other breach of the terms of his employment contract or other contract constituting him an Eligible Employee, or the date on which he begins to appear to be unable to pay or has no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his or her creditors generally or on which he has been convicted of any criminal offence involving his or her integrity or honesty, unless otherwise resolved to the contrary by the Board;

- (vi) in respect of a grantee other than an Eligible Employee, the date on which the Board shall determine that (i) (aa) such grantee has committed any breach of any contract entered into between such grantee on the one part and our Group or any Invested Entity on the other part; or (bb) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (cc) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in subparagraph (i) (aa), (bb) or (cc) above, unless otherwise resolved to the contrary by the Board;
- (vii) the expiry of the period referred to in paragraph 15 above; and
- (viii) the date on which the grantee commits a breach of paragraph 12 or any terms or conditions attached to the grant of the option or an event, in respect to a grantee, referred to in (2) below occurs, unless otherwise resolved to the contrary by the Board.

If the grantee is a company wholly owned by one or more Eligible Participants:

- (1) the provisions of paragraphs 13(i) and (ii), 18(v) and (vi) shall apply to the grantee and to the options granted to such grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 13(i) and (ii), 18(v) and (vi) shall occur with respect to the relevant Eligible Participant; and
- (2) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant,

provided that the Board may decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

19. Cancellation of options granted but not yet exercised

The Board shall have the absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued options (excluding the cancelled options) within the limit approved by the Shareholders as mentioned in the Share Option Scheme from time to time.

20. Period of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years after the adoption date, after which no further options may be issued. Subject to the above, in all other respects, in particular, in respect of Options remaining outstanding, the provisions of the Share Option Scheme shall remain in full force and effect.

The Board may impose such terms and conditions of the offer of grant either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme including but not limited to the minimum period for which an option must be held before it can be exercised.

21. Alteration to the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the terms and condition of the Share Option Scheme relating to matters set out in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) cannot be altered to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of our Company in general meeting. No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction of such majority of the grantee as would be required of the shareholders of our Company under the Articles for the time being of our Company for a variation of the rights attached to Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Directors or administrators of the Share Option Scheme in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

The amended terms of the Share Option Scheme and/or the options must continue to comply with the relevant provisions of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to Share Option Scheme).

Subject to the above paragraphs, the Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme such that the provisions of the Share Option Scheme would comply with all relevant legal and regulatory requirements in all relevant jurisdictions to the extent as considered necessary by the Board to implement the terms of the Share Option Scheme.

22. Termination to the Share Option Scheme

Our Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the Listing Rules which are granted during the life of the scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon (i) the Stock Exchange granting the approval of the listing of and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares which may fall to be issued pursuant to the exercise of the Offer Size Adjustment Option and any options under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the Listing Date; (ii) the obligations of the Underwriter under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and (iii) the commencement of dealings in the Shares on the Stock Exchange.

As at the Latest Practicable Date, no option had been granted by our Company under the Share Option Scheme. An application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in the Shares to be issued and allotted by our Company pursuant to the exercise of options that may be granted under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the Listing Date.

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

F. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders, pursuant to a deed of indemnity referred to in the paragraph headed “Summary of material contracts” of this Appendix, have given indemnities (subject to certain limitations) in respect of among other things, any tax liabilities which might be payable by any member of the Group in respect of (i) the amount of any and all taxation falling on any of the Group Companies resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the date on which Share Offer becomes unconditional (the “**Effective Date**”); (ii) any actions, claims, losses, payments, charges, settlement payments, costs, penalties, damages or expenses which any or all of our Group Companies may incur or suffer as a result of or in connection with any failure by any or all of our Group Companies to comply with the relevant Hong Kong and PRC laws and regulations at any time on or prior to the Effective Date; (iii) any duty, tax, or levy which becomes or should have become payable to any governmental authority of the PRC, Hong Kong or other parts of the world by our Group Companies or any of them at any time on or prior to the Effective Date; or (iv) all costs (including all legal costs), expenses or other liabilities which any of our Group

Companies may properly incur or incurred in connection with the investigation, assessment or the contesting and settlement of any tax claim, any such legal or arbitration proceedings and enforcement of any such settlement or judgement or award.

The Controlling Shareholders will, however, not be liable under the deed of indemnity to the extent that, among others:

- (a) provision, reserve or allowance has been made for such taxation in the audited accounts of the Company or any of the other Group Companies for the three years ended 31 December 2010, 2011 and 2012 and for the three months ended 31 March 2013; or
- (b) the liability arises or is incurred as a result of a retrospective change in law and/or rates coming into force on or after the Effective Date; or
- (c) the liability fall on any of the Group Companies after 31 March 2013 unless such liability would not have arisen but for any act or omission or transaction entered into by any of the Controlling Shareholders, the Company or any of the other Group Companies otherwise than in the ordinary course of business of our Group on or before the Effective Date; or
- (d) any provision or reserve made for such taxation in the audited accounts of the Company or any of the other Group Companies for the three years ended 31 December 2010, 2011 and 2012 and for the three months ended 31 March 2013 which is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to the Company, then the liability of the Controlling Shareholders, if any, in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excess reserve; or
- (e) the liability for which any of the Group Companies is primarily liable in respect of or in consequence of any event occurring or income, profits or gains earned, accrued or received or transactions in the ordinary course of its business after 31 March 2013.

The Controlling Shareholders have also undertaken to indemnify our Group against all actions, claims, demands, proceedings, costs and expenses, losses and liabilities whatsoever made, suffered or incurred by our Group arising from the non-compliances as disclosed under the paragraph headed “Business — Non-compliance” of this prospectus.

2. Litigation

As at the Latest Practicable Date, save as disclosed in this prospectus, to the best of the Directors’ knowledge, there is no current litigation or any pending or threatened litigation or arbitration proceedings against any member of the Group that could have a material adverse effect on the Group’s financial condition or results of operation.

3. Application for Listing of Shares

The Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the Offer Size Adjustment Option and options which may be granted under the Share Option Scheme on the Stock Exchange.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$38,220 and are payable by our Company.

There is no annual cost of compliance with applicable rules and regulations during the Track Record Period.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
Essence Corporate Finance (Hong Kong) Limited	Licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities
PricewaterhouseCoopers	Certified Public Accountants
Zhong Lun Law Firm	Legal advisers of the Company as to PRC law
Appleby	Legal advisers of the Company as to Cayman Islands law
Kaufman & Canoles, P.C.	Legal advisers of the Company as to US law
Fulbright & Jaworski LLP	Legal advisers of the Company as to US sanction law
Norton Rose Fulbright LLP	Legal advisers of the Company as to United Nations sanction law
Stirling Appraisals Limited	Property valuer
KL CPA Limited	Internal control adviser
Guangdong Zhonghaiyue Certified Public Accountants Co., Ltd.	PRC tax adviser

7. Consents of experts

Each of the parties listed in the paragraph headed “Qualifications of experts” has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter, report, valuation certificate, opinion and/or references to its name (as the case may be), all of which are dated the date of this prospectus, in the form and context in which they respectively appear in this prospectus.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Share Registrar

The register of members of our Company will be maintained in the Cayman Islands by Appleby Trust (Cayman) Ltd. and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company’s branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

10. No material adverse change

Our Directors confirm that there has been no material adverse change in the financial prospects of our Company or its subsidiaries since 31 March 2013 (being the date to which the latest audited financial statements of our Company were made up).

11. Miscellaneous

Save as disclosed herein:

- (a) within the 2 years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or any of its subsidiaries has been issued, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (iii) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares; and

- (iv) no founder, management or deferred shares of the Company have been issued or agreed to be issued.
- (b) no share, warrant or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;
- (d) our Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of our Company;
- (e) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus; and
- (f) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the Application Forms;
- (b) written consents referred to in the sub-paragraph headed “Consents of experts” in Appendix V to this prospectus; and
- (c) copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Hastings & Co. at 5th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association of our Company and the Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of our Group for the three financial years ended 31 December 2010, 2011, 2012 and for the three months ended 31 March 2013;
- (d) the report from PricewaterhouseCoopers on the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter, the summary of values and the valuation certificates relating to the property interests of our Group prepared by Stirling Appraisals Limited, the texts of which are set out in Appendix III to this prospectus;
- (f) the material contracts referred to in the paragraph headed “Further Information about the business of our Group — Summary of material contracts” in Appendix V to this prospectus;
- (g) the written consents referred to in the paragraph headed “Other Information — Consents of experts” in Appendix V to this prospectus;
- (h) the letter prepared by Appleby dated the date of this prospectus, summarising certain aspects of the Companies Law referred to in Appendix IV to this prospectus;
- (i) the legal opinions prepared by the PRC Legal Adviser dated the date of this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (j) the legal opinion prepared by Kaufman & Canoles P.C. relating to certain US law dated the date of this prospectus;
- (k) the advice prepared by Fulbright & Jaworski LLP relating to certain US sanction law dated the date of this prospectus;
- (l) the advice prepared by Norton Rose Fulbright LLP relating to certain United Nations sanction law dated the date of this prospectus;
- (m) the report prepared by Guangdong Zhonghaiyue Certified Public Accountants Co., Ltd. relating to the High and New Technology Enterprise matter dated the date of this prospectus;
- (n) the service contracts referred to in the paragraph headed “Disclosure of Interests — Particulars of service contracts” in Appendix V to this prospectus;
- (o) the Companies Law; and
- (p) the rules of the Share Option Scheme.



中國綠島科技有限公司
 CHINA LUDAO TECHNOLOGY COMPANY LIMITED