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)

ANNUAL REPORT **2014**

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Yu Yuerong *(Chairman)*
Mr. Han Jianhua
Ms. Pan Yili
Mr. Wang Xiaobing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Wong Chi Wai

AUDIT COMMITTEE

Mr. Wong Chi Wai *(Chairman)*
Ms. Cho Mei Ting
Mr. Ruan Lianfa

NOMINATION COMMITTEE

Ms. Cho Mei Ting *(Chairlady)*
Mr. Ruan Lianfa
Mr. Wong Chi Wai
Mr. Yu Yuerong

REMUNERATION COMMITTEE

Mr. Wong Chi Wai *(Chairman)*
Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Yu Yuerong

COMPANY SECRETARY

Mr. Li Wai See

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat B, 17/F, Harvest Building
29–37 Wing Kut Street
Central
Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

5 Sanmen Industry Road
Sanmen Industry Zone
Taizhou City
Zhejiang Province
The PRC

COMPLIANCE ADVISER

Essence Corporate Finance (Hong Kong) Limited
39/F, One Exchange Square
Central
Hong Kong

INDEPENDENT AUDITOR

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

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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

WEBSITE

www.ludaocn.com

STOCK CODE

2023

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of China Ludao Technology Company Limited (the "Company" and together with its subsidiaries, the "Group"), I would like to present to the shareholders of the Company the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2014 (the "Reporting Period").

Throughout the Reporting Period, the global economy grew slowly and was expected to recover partially from the financial crisis of prior years. However, there were still numerous factors which dragged down the global economy and curbed the momentum of economic expansion which even led to uneven economic development among developed and developing countries. Intensified regional geopolitical conflict, such as Ukraine crisis and Syria civil wars, Ebola outbreak in West Africa, deflation risk in Euro zone, quantitative easing monetary policies implemented by US and Japan and the recent oil price decline were some crucial factors that affected the trading trend and the growth pace. Among the emerging markets, only China showed stable growth and achieved sustainable economic development in the year 2014. As expert stated that huge economic shifts between countries would result in momentous changes in consumption patterns and this would in turn create and amplify more challenges for businesses worldwide.

Despite the severe market conditions, as the global and regional economies continue to grow, urbanization in different countries will continue to promote the consumption of aerosol products. These include the growing demands for personal care, household and automobile aerosol products. Growing automobile production in Mexico, Brazil, China and Indonesia is expected to have positive impact on the market growth.

As one of the few top leading manufacturers of aerosol products in the People's Republic of China ("PRC"), we have our well-known brand name products (including: "Green Island", "Ludao", "JIERJIA", "EAGLEIN KING"), large production line capacity, pioneer in scientific and technological innovation, extensive domestic distribution channels and network and well defined human resources training and management systems.

Currently, the Group has 10 existing aerosol production lines and a non-aerosol production line with annual capacity of 100 million cans of aerosol products and 6.5 million cans of non-aerosol products. In September 2014, we have formed a strategic cooperation partnership with Zhejiang TV Shopping Channel ("浙江電視台好易購頻道") and this channel will use all its online and various other platforms to promote our brand image and products image which shall promote the sales of our products as well.

We are striding forward with head high when facing the year 2015. With the solid foundation of the Group, we are still optimistic in the domestic market and our OBM business. The Group will continue to strive for the promising future and expansion of the Group by focusing in the development of high value added aerosol products, reducing administrative costs and any other related direct or indirect costs, enhancing the production capacity and improving our product competitiveness and brand images.

On behalf of the Board, I hereby express our sincere gratitude to the continuous and persistent contributions and efforts made by the management and all employees, as well as the strong support from all of our customers, suppliers and shareholders.

Yu Yuerong
Chairman and Executive Director

Hong Kong, 24 March 2015

Management Discussion and Analysis

BUSINESS OVERVIEW

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

Our OBM business 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. Benefited from the PRC's development, particularly the urbanization of China, the Group's sales in the PRC has boosted. Besides the increasing distribution network, we also put additional effort in promoting our products in chain stores and supermarket as well as e-commerce platform.

For the Reporting Period, the turnover and net profit of the Group were approximately RMB253.8 million and RMB20.5 million respectively, representing an increase of approximately 1.0% and a decrease of approximately 14.6% respectively over 2013. Basic earnings per share was RMB5 cents (2013: RMB7 cents).

FINANCIAL REVIEW

Turnover

CMS

For the Reporting Period, the turnover for the Group's CMS business was approximately RMB132.6 million (2013: RMB169.5 million), representing a decrease of approximately 21.8% as compared with last year.

With reference to the paragraph headed "Customers – Our CMS customers – Agreement C" under the section headed "Business" of the Prospectus, the Company had entered into Agreement C with Aragon, which customers are mainly government or non-government organisations and entities in Africa and the Middle East. Pursuant to Agreement C, among others, AraGon would conditionally place purchase orders with us for our mosquito sprays. However, the latest outbreak of the Ebola virus in Africa and the conflict in the Middle East did adversely affect the consumption in those regions. As such, the purchase orders from Aragon had been suspended during the Reporting Period.

FINANCIAL REVIEW *(Continued)*

Turnover *(Continued)*

CMS (Continued)

The continuous sluggish recovery of global economies, deflation risk in Euro zone, increase in the labour cost in the manufacturing market in Mainland China and the European Commission and the passing of regulations for reducing volatile organic compound emission by the Environmental Protection Agency had adverse effect on the aerosol market growth in 2014.

OBM

The turnover for OBM business of the Group for the Reporting Period was approximately RMB121.2 million (2013: RMB81.9 million), representing an increase of approximately 48.0% as compared with last year.

During the year under review, the Group has continued to develop its OBM business by developing innovative products, enriching the product line and promoting the product image and its brand name. This strategy has succeeded in receiving encouraging responses from customers and gaining their loyalty, which in turn has helped improve our market position in the industry.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB189.1 million (2013: RMB188.9 million), there are no material changes when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB64.7 million (2013: RMB62.5 million), representing an increase of approximately 3.5% as compared to that of the prior year. The gross profit margin was approximately 25.5% (2013: 24.9%), representing a slight increase of approximately 0.6% as compared to that of the prior year.

FINANCIAL REVIEW *(Continued)*

Expenses

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the Reporting Period, selling expenses was approximately RMB16.1 million (2013: RMB11.4 million), representing an increase of approximately 41.2% as compared to that of the prior year. The increase was primarily due to the increase in labour and transportation cost in the PRC.

Administrative Expenses

Administrative expenses consist of staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax (exclude income tax) and entertainment expenses. For the Reporting Period, administrative expenses was approximately RMB27.6 million (2013: RMB20.7 million, excluding the listing expenses of approximately RMB8.9 million), representing an increase of approximately 33.3% as compared to that of the prior year. The increase was primarily due to the increase in staff salaries and benefit expenses.

Finance expense – net

For the Reporting Period, the Group recorded net finance expense of approximately RMB0.7 million (2013: net finance income of RMB0.2 million), representing a decrease of approximately RMB0.9 million as compared to that of the prior year. The increase in finance costs was due to the increase in interest expense from bank borrowings of approximately RMB0.9 million.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB3.7 million, representing a decrease of approximately RMB1.7 million as compared with RMB5.4 million in 2013. Effective income tax rate for the current period was approximately 15.1%, which was lower as compared with approximately 18.5% over 2013. The lower effective income tax rate was due to the decrease in listing expenses which was not deductible for taxation purposes last year.

FINANCIAL REVIEW *(Continued)*

Net Profit

The Group's net profit for the Reporting Period was approximately RMB20.5 million (2013: RMB24.0 million), representing a decrease of approximately 14.6% when compared to the prior year. The net profit margin of the Group decreased from 9.6% in 2013 to 8.1% in 2014. Such decrease was primarily due to the increase in selling expenses for the Reporting Period.

HIGHLIGHT OF BALANCE SHEET

Trade Receivable

As at 31 December 2014, trade receivable of approximately RMB19.0 million was overdue, the Board considered such increase was substantial as compared to the amount of RMB1.7 million for the prior year. Concern has been raised by the Board to the management of the Group and assessment on the outstanding balance of the trade receivable has been performed, in particular to the aging of such debts, payment histories, trading records and other available information regarding the respective customers.

Despite the fact that the credit period granted to customers is normally between 0 to 180 days and trade receivables of RMB19.0 million was overdue, provision of doubtful debt was not considered necessary by the Board after taking into account the following factors:

(i) RMB13.0 million was settled by the customers in respect of the overdue receivables of RMB19.0 million subsequently; and

(ii) These related to a number of independent customers that have good track records with the Group for 2-10 years.

The management is of the view that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality after making assessment of the above factors. The management has confidence to recover the outstanding balances in the first quarter of 2015.

HIGHLIGHT OF BALANCE SHEET *(Continued)*

Prepayment & deposits

Prepayment & deposits primarily consist of prepayment to suppliers for raw materials, deposits for price-locking agreements and other miscellaneous prepayment & deposits. Breakdown is as follow:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Prepayment to suppliers of raw materials	**17,976**	9,337
Deposits for price-locking agreements	**28,000**	28,000
Rental Deposits	**183**	971
Other prepayments & deposits	**2,103**	3,192
	48,262	41,500

The significant increase in prepayment to suppliers was primarily due to the change of credit policies by some of the major suppliers, which required prepayment for purchasing raw materials. Of the RMB18.0 million prepayment of raw materials, the Company had made RMB14.5 million prepayment to four different major suppliers.

Other prepayments & deposits include prepayment for advertising and marketing expenses, transportation expenses, professional expenses and prepayment and deposits for utility expenses.

FINAL DIVIDEND

The Board does not recommend payment of any dividend in respect of the year ended 31 December 2014.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the total assets of the Group amounted to approximately RMB342.5 million (2013: RMB295.8 million), and net current assets of approximately RMB121.5 million (2013: RMB121.8 million). The gearing ratio (based on the total debt over the total equity) of the Group has increased from approximately 39% as at 31 December 2013 to approximately 44% as at 31 December 2014. The increase in gearing ratio as at 31 December 2014 resulted primarily from the increase in borrowings during the Reporting Period.

BORROWINGS

Borrowings of the Group, which were denominated in RMB, amounted to approximately RMB29.0 million as at 31 December 2014 (2013: RMB10.0 million) with full amount expiring before 31 December 2015. As at 31 December 2014, borrowings of approximately RMB20.0 million (2013: nil) were secured by land use right and certain property, plant and equipment of the Group.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Comapny's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB55.7 million. This includes the Comapny's Share premium account of approximately RMB67.9 million as at 31 December 2014, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

CAPITAL STRUCTURE

During the year ended 31 December 2014, there were no changes in the Company's share capital.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2014, the Group operating lease commitment of approximately RMB1.1 million (2013: RMB2.1 million). As at 31 December 2014, the Group had capital commitments of approximately RMB3.2 million (2013: RMB12.9 million).

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities.

EXCHANGE RATE EXPOSURE

During the Reporting Period, the Group mainly operates in the PRC with most transactions settled in RMB. The majority of our assets and liabilities were denominated in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than RMB. We currently do not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

EMPLOYEES AND EMOLUMENTS POLICIES

As at 31 December 2014, the Group had employed a total of 367 (2013: 341) employees. The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of Directors have been determined with reference to the skills, knowledge, involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the year.

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group did not have any significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the year ended 31 December 2014, the net proceeds from the Company's Initial Public Offer ("IPO") had been applied as follows:

	Actual net proceeds	Amount utilized up to 31 December 2014	Unutilized balance as at 31 December 2014
	HK$ million	HK$ million	HK$ million
To increase production capacity by financing the first phase of constructing new production facility	32	29	3
To expand the domestic distribution channel	14	9	5
To promote our own brand names by increasing marketing and advertising efforts	7	2	5
To fund the working capital requirement	6	6	–
Total	59	46	13

The unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and PRC in accordance with the intention of the Board as disclosed in the prospectus dated 30 September 2013 (the "Prospectus").

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The net proceeds from the IPO exercise on the Stock Exchange of Hong Kong Limited ("Stock Exchange") in October 2013 amounted to approximately HK$59 million (approximately RMB48 million). The proposed application of the net proceeds was set out in the paragraph headed "Future plan and use of proceeds" containing in the Prospectus. During the Reporting Period, the Company continued to apply the net proceeds according to the disclosures of the Prospectus.

Going forward, the Group will continue to promote our own brand names under our OBM business and capture the growth potential of aerosol products manufacturing in the PRC. Meanwhile, the Group will continue to explore new business opportunities in other provinces so as to promote a more diversified quality customer base by strengthening our distributors' network.

PROSPECTS

During the Reporting Period, the global economy has continued its sluggish recovery from financial crisis of previous year and the uneven development among different countries which affect the consumption pattern negatively and continued the adverse impact on the consumer spending sentiment. Those factors had negative impact on the performance of the Group's CMS business and is expected to continue into 2015. The Group would continue to implement stringent cost control and to maintain its competitiveness in terms of productivity, quality and reliability. The Group would continue to manufacture high technology and high value added products with competitive prices and maintain long-term relationships with existing CMS customers by providing trustworthy products.

With the solid foundation of the Group, we are still optimistic in the domestic market and our OBM business. The Group will continue to strive for the promising future and expansion of the Group by focusing in the development of high value added aerosol products, reducing administrative costs and any other related direct or indirect costs, enhancing the production capacity and improving our product competitiveness and brand images.

Corporate Governance Report

The Board is pleased to present this corporate governance report (the "Corporate Governance Report") in the Group's annual report for the year ended 31 December 2014.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations. The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has complied with the CG Code for the year ended 31 December 2014 except code provision A.2.1.

Pursuant to CG Code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Yu Yuerong ("Mr. Yu"), the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Yu's experience and established market reputation in the industry, and the importance of Mr. Yu in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct of the Group regarding Director's securities transactions for the year ended 31 December 2014. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the Model Code throughout the period from the Listing Date to 31 December 2014.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairman and chief executive officer and Mr. Yu currently holds both positions, as explained in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The independent non-executive Directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the board's decision making process. Their presence and participation also enable the board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

THE BOARD

The Board provides leadership, guidance and strategic decisions to the Group's activities and oversees its financial performance. Directors are responsible for promoting the success of the Company and making decisions in the best interests of the Company. The Board has delegated its powers to the management with regards to the Group's daily management and operations.

Roles and Responsibilities of Directors

The Board, led by the Chairman, is collectively responsible for formulating and approving the business strategies of the Company, setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies.

The primary objective of the Board is to maximize the profit of the Company and to enhance long term value of the Company for the shareholders. To this end, the Board assumes the responsibilities for leadership and control of the Company and oversees the businesses, strategic development, financial performance and corporate governance of the Group. All new board members have been given information on the general business background and policy of the Company on joining the board and all the Directors have been provided with regular trainings by external experienced lawyers to update and refresh the applicable legal and other regulatory requirements and enhance the knowledge and skills required from Directors to perform their duties.

The executive Directors are responsible for day-to-day management of the Company's operations and conduct meeting with senior management of the Group at which operational issues and financial performance are evaluated.

Board Composition

During the year ended 31 December 2014, the Board comprise of three independent non-executive Directors in compliance with Rule 3.10(1) of the Listing Rules that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Mr. Wong Chi Wai, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors, representing more than one-third of the Board in compliance with Rule 3.10A of the Listing Rules.

The Board comprise of the following Directors:

Executive Directors
Mr. Yu Yuerong *(Chairman and Chief Executive Officer)*
Mr. Han Jianhua
Ms. Pan Yili
Mr. Wang Xiaobing (appointed on 16 May 2014)

Independent Non-executive Directors
Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Wong Chi Wai

The biographical details and responsibilities of the Directors as well as the senior management are set out in the paragraph headed "Biographies of Directors and Senior Management" on pages 21 to 23 of this annual report.

Save as disclosed in the paragraph headed "Biographies of Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with one another.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership, as all the executive Directors possess extensive experience in aerosol industry in the PRC, whilst the independent non-executive Directors possess professional knowledge and broad experience in the areas of finance, law and management, respectively. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders and the Company.

Functions and Duties of the Board

The main functions and duties conferred on and performed by the Board include:

(i) Overall management of the business and strategic development;

(ii) Deciding business plans and investment plans;

(iii) Convening general meetings and reporting to the shareholders of the Company;

(iv) Exercising other powers, functions and duties conferred by shareholders in general meetings; and

(v) Determining the policies for corporate governance practices.

The Board is responsible for performing the corporate governance duties as set out in the CG Code. The management is responsible for the daily management & operation of the Company.

Prior to their respective appointment, each of the Independent non-executive Directors have submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each independent non-executive Director in respect of their independence. Based on the contents of such confirmation, the Board consider these independent non-executive Directors to be independent under Rules 3.13 of the Listing Rules.

Appointment, Re-election and Removal of Directors

All Directors are appointed for a specific term. All the executive Directors (except Mr. Wang Xiaobing whose service contract is engaged with the Company on 16 May 2014), and independent non-executive Directors of the Company are engaged on a service contract with the Company commencing from 16 September 2013.

The Company has adopted "Directors Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association (the "Articles"). According to the Articles, all Directors of the Company are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting ("AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting and any new Director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next AGM.

In accordance with the Articles, Mr. Han Jianhua, Ms. Pan Yuli and Mr. Wang Xiaobing shall retire and, being eligible, offer themselves for re-election at the forthcoming 2015 AGM of the Company. The Board and the nomination committee (the "Nomination Committee") recommend their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above three Directors as required by the Listing Rules.

Directors' Training

All Directors confirmed that they had complied with CG Code provision A.6.5 during the period from the Listing Date, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company has arranged an in-house training on the Listing Rules in the form of a seminar during the Reporting Period conducted by the legal adviser as to Hong Kong Laws and relevant training material has been distributed to the Directors. The training covered topics including the CG Code, listed company regulations and disclosure obligations in Hong Kong, discloseable transactions and connected transactions etc.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy. The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During the Reporting Period, the Company has a solid slate of Directors with diverse perspectives and varied educational background and expertise made-up, from extensive knowledge of the manufacturing and aerosol industry, experience in international trade, finance and corporate management, to professional qualifications in the legal and accounting fields. Each Director had accumulated experience in his/her respective field of expertise for over 10 years, all of whom are anchored by the common trait of having a natural aptitude and singular drive for the industry so as to bring sustainable growth to the Company.

Board Meetings

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

Pursuant to CG Code provision A.1.1, the Board should meet regularly and board meetings should be held at least four times a year. During the year ended 31 December 2014, there were five board meetings held. All Directors attended the board meeting.

BOARD COMMITTEES

The Board has established three Board committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company have been established with defined written terms of reference which are posted on the Company's website "www.ludaocn.com" and on the Stock Exchange's website "www.hkexnews.hk". All the Board committees should report to the Board on their decisions or recommendations made. All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 September 2013 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules.

The primary duties of the Audit Committee are, among other things, to make recommendations to the Board on the appointment, re-appointment and removal of the external independent auditor, and any questions of its resignation or dismissal. It is also responsible for reviewing Company's financial information and overseeing of the Company's financial reporting system and internal control procedures.

The Audit Committee comprises of three independent non-executive Directors, namely Mr. Wong Chi Wai (being the chairman of the Audit Committee), Ms. Cho Mei Ting and Mr. Ruan Lianfa. In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee possesses the appropriate professional and accounting qualifications.

The terms of reference setting out the Audit Committees authority and duties are available on both websites of the Company and the Stock Exchange.

During the Reporting Period, the Audit Committee has held four meetings for discussion on issues arising from the audit and financial reporting matters and all the relevant Directors attended the meeting.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 September 2013 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are 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 package of our Directors and senior management.

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

The Remuneration Committee comprises of four members, being three are independent non-executive Directors, namely, Mr. Wong Chi Wai (being the chairman of the Remuneration Committee), Ms. Cho Mei Ting, Mr. Ruan Lianfa, and one executive Director, Mr. Yu.

During the Reporting Period, there was three meetings held to review and make recommendation on the remuneration packages of individual executive Directors and senior management and director's fee of independent non-executive Directors.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 16 September 2013 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee is to make recommendations to the Board on the appointment or re-appointment of Directors and the senior management as well as the succession planning for directors.

The terms of reference setting out the Nomination Committees authority and duties are available on both websites of the Company and the Stock Exchange.

The Nomination Committee comprises of four members, being three are independent non-executive Directors, namely, Ms. Cho Mei Ting (being the chairlady of the Nomination Committee), Mr. Ruan Lianfa, Mr. Wong Chi Wai, and one executive Director, Mr. Yu.

During the Reporting Period, the Nomination Committee has held two meetings to review the size and composition of the Board and all the relevant Directors attended the meeting.

COMPANY SECRETARY

The Company Secretary, Mr. Li Wai See, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully abreast of the relevant legislative, regulatory and corporate governance developments relating to the Group.

The Company Secretary reports to the chairman and chief executive officer, plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

During the year, Mr. Li has attended relevant professional seminars to update his skills and knowledge. He is in compliance of the Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

EXTERNAL INDEPENDENT AUDITOR'S REMUNERATION

The Company engaged PricewaterhouseCoopers as its external independent auditor for the year ended 31 December 2014. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. During the year ended 31 December 2014, the fee payable to PricewaterhouseCoopers in respect of its statutory audit services provided to the Company was RMB1.4 million (2013: RMB1.8 million).

INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective internal control to safeguard the Group's assets and shareholders' interests. The Board has conducted regular reviews on the effectiveness of the Group's internal control system during the year, which covers all material controls, including financial, operational and compliance controls as well as risk management functions and an annual review on the adequacy of staffing of the accounting and financial reporting function.

The Company engaged KL CPA Limited to conduct an assessment on the effectiveness of the internal controls of the Group during for the year ended 31 December 2014. Result of the assessment was satisfactory.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The management of the Company believes that effective and proper investor relations play a vital role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence. As such, the Company has adopted a stringent internal control system to ensure true, accurate, complete and timely disclosure of relevant information pursuant to requirements of relevant laws and regulations in order to ensure all shareholders equal access to information. In addition, since the Listing Date, the Company has proactively taken the following measures to ensure effective shareholders' communication and transparency:

- maintained frequent contacts with shareholders and investors through various channels such as meetings, telephone and emails;
- regularly update the Company's news and developments through the investor relations section of the Company's website;

Through the above measures, the Company endeavours to communicate with the investment community and provide them with the latest development of the Group and the PRC aerosol industry.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. The Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings as follows:

(1) Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company may request the Board to convene an extraordinary general meeting pursuant to Article 64 of the Articles by sending a written requisition to the Board or the company secretary. The objects of the meeting must be stated in the written requisition.

(2) If a shareholder wishes to propose a person other than a retiring Director for election as a Director of the Company at a general meeting, pursuant to Article 113 of the Articles, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office or the office of the Company's branch share registrar. The period for lodgement of such notices shall commence on the day after the despatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's principal place of business in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

The Company has not made any changes to the Articles since the Listing Date. An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles for further details of the rights of shareholders.

All resolutions proposed at shareholder meetings will be voted by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ludaocn.com) respectively immediately after the relevant general meetings.

EXECUTIVE DIRECTORS

Mr. Yu Yuerong (虞岳榮), aged 47, was appointed as the Chairman and executive Director of the Company on 16 September 2013. 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 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. Han Jianhua (韓劍華), aged 55, was appointed as an executive Director of the Company on 16 September 2013. Mr. Han has over 20 years of extensive experience in PRC's factory operation and corporate management. 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). Prior to joining the Group, 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.

Ms. Pan Yili (潘伊莉), aged 39, was appointed as an executive Director of the Company on 16 September 2013. Ms. Pan has over 10 years of corporate marketing and management experience. 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. 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.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Wang Xiaobing（王小兵）, aged 40, was appointed as an executive Director of the Company on 16 May 2014. He is the head of research and development department. Mr. Wang joined our Group in 2010 and 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 and Fragrances Company Limited (the shares of which are listed on the Stock Exchange of Hong Kong Limited (Stock Code: 3318)) in various capacity including engineer, technical manager and general supervisor of the department for daily-use fragrance and flavors. He has professional and managerial experiences in 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cho Mei Ting（曹美婷）, aged 52, was appointed as an independent non-executive Director of the Company on 16 September 2013. 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 61, was appointed as an independent non-executive Director of the Company on 16 September 2013. 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）.

Mr. Wong Chi Wai（黃馳維）, aged 48, was appointed as an independent non-executive Director of the Company on 16 September 2013. Mr. Wong is a Certified Public Accountant (Practicing) 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 25 years of experience in the accountancy profession and he is currently the owner of Albert Wong & Co. and AWC (CPA) Limited, both are certified public accountants firms. Mr. Wong is an independent non-executive director of Bonjour Holdings Limited, Kin Yat Holdings Limited, Arts Optical International Holdings Limited and South West Eco Development Limited, all of which are companies listed on the Main Board of the Stock Exchange.

COMPANY SECRETARY

Mr. Li Wai See（李偉思）, aged 53, is the 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 10 years of experience in company secretarial administration and accounting, and is currently a director of a 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 in United Kingdom, and the Institute of Chartered Accountants in England and Wales.

SENIOR MANAGEMENT

Mr. He Haibo（何海波）, aged 35, is the 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 3 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. Wang Yongfei（王永飛）, aged 39, 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' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2014.

GROUP REORGANISATION

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 May 2012. On 16 September 2013, the Company became the holding company of the current subsidiary companies within the Group, which had undergone reorganisation to rationalize its structure in preparation for the listing of the shares on the Stock Exchange. On 11 October 2013, the shares of the Company were listed on the Main Board of the Stock Exchange.

During the year ended 31 December 2014, there was no group reorganisation.

PRINCIPLE ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in manufacturing of aerosol products in the PRC. Details of principal activities of the principal subsidiaries are set out in note 16 to the audited consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income on page 36.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2014.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years is set out on page 84 of this annual report. This summary does not form part of the audited consolidated financial statements.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 April 2015 to 6 May 2015, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM to be held on 6 May 2015, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 29 April 2015.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

LAND USE RIGHTS

On 30 December 2013, the Company had successfully obtained a land use right with total area of 7,038 square meters at RMB3.0 million through a public auction in Sanmen County. In March 2014, the Company had obtained the land use certification and the infrastructure of the new factory on the corresponding land is expected to be completed by the end of 2015.

SHARE CAPITAL

Details of movements in the Company and the Group's share capital during the year are set out in note 21 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group during the year are set out in the consolidated statement of changes in equity and note 22 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of sales and purchases attributable to the Group's largest customers and suppliers are as follows:

	2014	2013
	%	%
Sales		
– the largest customer	**16.9**	24.1
– five largest customers combined	**52.0**	58.3
Purchases		
– the largest supplier	**36.2**	21.9
– five largest suppliers combined	**64.1**	48.3

At all-time during the Reporting Period, none of the Directors or any of their associates or any shareholders of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2014.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors in office at the date of this report are:

Executive Directors
Mr. Yu Yuerong *(Chairman)*
Mr. Han Jianhua
Ms. Pan Yili
Mr. Wang Xiaobing

Independent non-executive Directors
Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Wong Chi Wai

Pursuant to Article 108(a) of the Company's Article, at each AGM, one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

As such, Mr. Han Jianhua, Ms. Pan Yili and Mr. Wang Xiaobing will retire from office as Directors at the 2015 AGM and will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date (other than Mr. Wang Xiaobing, whose service contract was entered into on 16 May 2014) and shall continue thereafter unless and until it is terminated by our Company or our Director giving to the other party not less than three months' prior notice in writing.

Each of the independent non-executive Director 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.

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).

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, which competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the Reporting Period and up to and including the date of this annual report.

Each of Mr. Yu and Ludao Investments (together the "Controlling Shareholders"), had entered into a deed of non-competition dated 16 September 2013 (the "Deed of Non-competition") in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/its associates not to (other than through the Group or in respect of each covenanter (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 recognised 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 the Group from time to time, except where the Company's approval is obtained.

In order to ensure the Controlling Shareholders have complied with the Deed of Non-competition, each of the Controlling Shareholders has provided to the Company a written confirmation (i) in respect of his/its compliance with the Deed of Non-competition for the Reporting Period and no personal interests were ever declared by any Controlling Shareholders who are also Directors at the Directors' meetings; and (ii) stating that they have not entered into any business which may be in competition with the business carried on by the Group from time to time. As there was no change in terms of the undertaking since the Company's listing on the Stock Exchange, the Board is of the view that the Controlling Shareholders have complied with the Deed of Non-competition and no matters is required to bring to the attention to the public.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the paragraph headed "Biographies of Directors and Senior Management" of this report.

SHARE OPTION SCHEME

Pursuant to the current option scheme ("Share Option Scheme") of the Company adopted on 16 September 2013, the Directors may invite participants to take up options at a price determined by the Board provided that it shall be at least 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.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other Share Option Scheme of the Company shall not in aggregate exceed 40,000,000 Shares, representing 10% of the total number of Shares in issue as at the date of this annual report unless the Company obtains a fresh approval from the Shareholders.

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting of the Company.

The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which may be determined and notified by the board of Directors to the grantee at the time of making an offer which shall not expire later than 10 years from the offer date.

As at the date of this annual report, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which(a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules, were as follows:

(a) Long positions in the Shares:

Name of Director	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding interests of the Company
Mr. Yu	Interest in a controlled corporation *(Note)*	270,300,000 Shares	67.575%

Note: Ludao China Investments Holdings Limited ("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

Name of Director	Capacity/nature of interest	Approximate percentage of shareholding interests of the Company
Mr. Yu	Beneficial owner	100%

SUBSTANTIAL SHAREHOLDERS' AND OTHERS' PERSON INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, the following persons (not being a Director or chief executive of the Company), other than those disclosed in the paragraph headed "Directors' and Chief Executives' Interest in Securities", had notified the Company of its interests and/or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding interests of the Company
Ludao Investments *(Note 1)*	Beneficial owner	270,300,000 Shares	67.575%
Neland Development Limited ("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.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURE

Save as disclosed in paragraph headed "Share Option Schemes" of this report, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any Directors of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

During the Reporting Period, the Group had not entered into any connected transaction which is not exempt under Rule 14A.31 of the Listing Rules.

Continuing connected transactions

During the Reporting Period, the Group had the following transaction in the ordinary course of business with a connected person. The transaction constitutes a continuing connected transaction under Chapter 14A of the Listing Rules upon Listing.

Yiwu Weiwei Cosmetics Co. Ltd ("Yiwu Weiwei")

On 16 September 2013, Zhejiang Ludao Technology Co., Ltd ("Ludao (PRC)"), an indirect wholly-owned subsidiary of our Company, and Yiwu Weiwei, a sole proprietorship owned by Mr. Yu Afu, the father of Mr. Yu, entered into a distribution agreement (the "Yiwu Weiwei 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 11 October 2013 (i.e. the Listing Date) to 31 December 2015.

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 for the area of distribution, sales target and rebate rate in respect of each independent distributor vary. 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.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Sales to Yiwu Weiwei

	For the year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Actual Sales	**–**	195
Annual cap	**880**	880

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.

As no sales have been made during the Reporting Period, the Company's independent auditor was not engaged to report on the transaction as required under Rule 14A.38 of the Listing Rules.

Our Directors (including the independent non-executive Directors) confirm that the Distribution agreement has been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of independence, and the Company considers that each of them to be independent and has met the guidelines set out in Rule 3.13 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as its code of conduct regarding directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the Model Code throughout the Reporting Period.

CORPORATE GOVERNANCE

The Board is of the opinion that the Company had complied with the CG Code throughout the Reporting Period, as set out in Appendix 14 of the Listing Rules, save for the deviation as disclosed in Corporate Governance Report from pages 12 to 20, which provide further information on the Company's corporate governance practices.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group for the year ended 31 December 2014.

AUDITOR

The consolidated financial statements for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company to seek shareholders' approval on the appointment of PricewaterhouseCoopers as the Company's independent auditors until the conclusion of the next AGM and to authorise the Board to fix their remuneration.

By order of the Board

Yu Yuerong
Chairman

Hong Kong, 24 March 2015

Independent Auditor's Report

羅兵咸永道

To the Shareholders of China Ludao Technology Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Ludao Technology Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 83, which comprise the consolidated and company balance sheets as at 31 December 2014 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Company Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2015

Consolidated Statement of Comprehensive Income

	Note	2014 RMB'000	2013 RMB'000
		Year ended 31 December	
Revenue	*6*	**253,795**	251,382
Cost of sales	*7*	**(189,094)**	(188,860)
Gross profit		**64,701**	62,522
Other income	*6*	**3,939**	9,303
Other gain/(loss) – net	*6*	**(54)**	(1,528)
Selling expenses	*7*	**(16,109)**	(11,423)
Administrative expenses	*7*	**(27,568)**	(29,648)
Operating profit		**24,909**	29,226
Finance income	*10*	**467**	565
Finance costs	*10*	**(1,214)**	(335)
Finance income – net		**(747)**	230
Profit before income tax		**24,162**	29,456
Income tax expense	*11*	**(3,654)**	(5,449)
Profit for the year		**20,508**	24,007
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(70)**	(1,032)
Total comprehensive income for the year attributable to the owner of the Company		**20,438**	22,975
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	*12*	**0.05**	0.07

The notes on pages 41 to 83 are an integral part of these financial statements.

Consolidated and Company Balance Sheets

		Group		Company	
		As at 31 December		As at 31 December	
	Note	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
ASSETS					
Non-current assets					
Land use rights	13	**5,115**	1,934	**–**	–
Property, plant and equipment	14	**70,284**	51,530	**–**	–
Intangible assets	15	**729**	896	**–**	–
Investments in subsidiaries	16	**–**	–	**13,573**	13,573
Deferred income tax assets	26	**416**	243	**–**	–
Prepayment for property, plant and equipment and land use rights		**6,063**	6,032	**–**	–
		82,607	60,635	**13,573**	13,573
Current assets					
Inventories	17	**33,762**	30,329	**–**	–
Trade and other receivables	18	**187,349**	132,047	**48,908**	37,473
Cash and cash equivalents	19	**26,821**	54,291	**1,496**	15,277
Pledged bank deposits	20	**11,982**	18,498	**–**	–
		259,914	235,165	**50,404**	52,750
Total assets		**342,521**	295,800	**63,977**	66,323
EQUITY					
Capital and reserves attributable to owners of the Company					
Share capital	21	**3,170**	3,170	**3,170**	3,170
Share premium	21	**52,153**	52,153	**67,883**	67,883
Other reserves	22	**50,693**	48,479	**(101)**	(273)
Retained earnings/(accumulated losses)		**96,825**	78,601	**(12,033)**	(9,713)
Total equity		**202,841**	182,403	**58,919**	61,067

Consolidated and Company Balance Sheets

		Group		Company	
		As at 31 December		As at 31 December	
	Note	**2014**	2013	**2014**	2013
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
LIABILITIES					
Non-current liabilities					
Deferred government grants	*23*	**1,300**	–	**–**	–
Current liabilities					
Trade and other payables	*24*	**107,706**	101,132	**5,058**	5,256
Current income tax liabilities		**1,674**	2,265	**–**	–
Borrowings	*25*	**29,000**	10,000	**–**	–
		138,380	113,397	**5,058**	5,256
Total liabilities		**139,680**	113,397	**5,058**	5,256
Total equity and liabilities		**342,521**	295,800	**63,977**	66,323
Net current assets		**121,534**	121,768	**45,346**	47,494
Total assets less current liabilities		**204,141**	182,403	**58,919**	61,067

The notes on pages 41 to 83 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 36 to 83 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf.

Yu Yue Rong
Director

Wang Xiao Bing
Director

Consolidated Statement of Changes in Equity

	Share capital RMB'000 Note (21)	Share premium RMB'000 Note (21)	Other reserves RMB'000 Note (22)	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2013	–	–	34,918	58,044	92,962
Comprehensive income					
Profit for the year	–	–	–	24,007	24,007
Currency translation differences	–	–	(1,032)	–	(1,032)
Total comprehensive income	–	–	(1,032)	24,007	22,975
Transaction with owners					
Issuance of share	3,170	60,230	–	–	63,400
Share issuance costs	–	(8,077)	2,157	–	(5,920)
Profit appropriation	–	–	3,450	(3,450)	–
Wavier of advance from controlling shareholder	–	–	8,986	–	8,986
Balance at 31 December 2013	3,170	52,153	48,479	78,601	182,403
Balance at 1 January 2014	**3,170**	**52,153**	**48,479**	**78,601**	**182,403**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**20,508**	**20,508**
Currency translation differences	**–**	**–**	**(70)**	**–**	**(70)**
Total comprehensive income	**–**	**–**	**(70)**	**20,508**	**20,438**
Transaction with owners					
Profit appropriation	**–**	**–**	**2,284**	**(2,284)**	**–**
Balance at 31 December 2014	**3,170**	**52,153**	**50,693**	**96,825**	**202,841**

The notes on pages 41 to 83 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash used in from operations	29(a)	**(22,904)**	(25,830)
Interest paid		**(1,214)**	(335)
Income tax paid		**(4,417)**	(4,600)
Net cash used in operating activities		**(28,535)**	(30,765)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(20,569)**	(8,883)
Prepayment for property, plant and equipment		**(32)**	(5,411)
Purchased land use rights		**(3,285)**	–
Purchase of intangible assets		**(22)**	(193)
Decrease of pledged bank deposits		**6,515**	3,789
Interest received		**467**	565
Net cash used in from investing activities		**(16,926)**	(10,133)
Cash flows from financing activities			
Issue of shares		**–**	63,400
Share issuance costs		**–**	(8,077)
Proceeds from bank borrowings		**42,000**	13,000
Repayments of bank borrowings		**(23,000)**	(3,000)
Proceeds from notes payable		**100,250**	120,289
Repayments of notes payable		**(101,270)**	(126,383)
Net cash generated from financing activities		**17,980**	59,229
Net increase in cash and cash equivalents		**(27,481)**	18,331
Cash and cash equivalents at beginning of the year	19	**54,291**	36,284
Currency translation differences		**11**	(324)
Cash and cash equivalents at end of the year	19	**26,821**	54,291

The notes on pages 41 to 83 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

China Ludao Technology Company Limited (the "Company") was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company's registered office is 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 ultimate holding company of the Company is Ludao China Investments Limited ("Ludao Investments") which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), who has an effective 67.575% interest in the Company.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of shares of the Company, the Company acquired the entire issued share capital of Ludao Investments Holdings Limited ("Ludao BVI"), through a share exchange with Ludao Investments, the owner of Ludao BVI and the holding company of the Company, and Neland Development Limited. Upon completion of the Reorganisation in 2013, the Company became the holding company of the Group and Ludao BVI acts as the intermediate holding company of Zhejiang Ludao Technology Co., Ltd. ("Ludao PRC"), an operating subsidiary of the Group.

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Change in accounting policy and disclosure

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment did not have a significant effect on the Group financial statements.

HK (IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(b) New and amended standards have been issued but are not yet effective for the financial year and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
HKFRS 9 and HKFRS 7 (amendments)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2016
HKAS 1	Disclosure initiative	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (amendments)	Investment entities	1 January 2016
HKAS 34 (amendments)	Interim financial reporting	1 January 2016
HKAS 19 (amendments)	Employee benefits	1 January 2016
HKFRS 5 (amendments)	Non-current assets held for sale and discontinued operations	1 January 2016
HKAS 27 (amendments)	Equity method in separate financial statements	1 January 2016
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between and investor and its associate or joint venture	1 January 2016
HKAS 16 and HKAS 41 (amendments)	Agriculture bearer plants	1 January 2016
HKFRS 11 (amendments)	Acquisition of interests in joint operation	1 January 2016
HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 15	Revenue from contracts with customer	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(c) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Consolidation

2.2.1 Merger accounting for Reorganisation

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, whichever is shorter, regardless of the date of the common control combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.1 Merger accounting for Reorganisation (Continued)

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adapted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

2.2.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for non-common control 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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.

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 Company's functional currency is Hong Kong Dollars ("HK$"). The consolidated financial statement is presented in RMB which is the Group's presentation currency, as the Group's business is mainly carried out in the PRC and transacted in RMB.

(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 consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) *Transactions and balances (Continued)*

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income" or "finance costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other gain/(loss)".

(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 transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, 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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income over the remaining period of the lease on a straight-line basis, net of any impairment losses.

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 consolidated statement of comprehensive income 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 machinery	10-15 years
Office furniture and equipment	3-10 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 gain/(loss) – net' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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;

– 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairments. Assets that are subject to amortisation 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). 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.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 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.

2.14 Cash and cash equivalents

In the consolidated 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.

2.15 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.

2.16 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Borrowings *(Continued)*

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2.18 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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.19 Current and deferred income tax

The tax expense for the period comprised current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 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.

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 utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability 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. Generally the group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised 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.

2.21 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 customers, 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.

2.22 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 consolidated statement of comprehensive income 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: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise 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.

Major foreign currencies of Group are HKD and United Stated dollars (USD). 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	
	2014	2013
	RMB'000	*RMB'000*
Assets		
HKD and USD	**44,407**	96,079
Liabilities		
HKD and USD	**3,559**	6,583

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) ***Foreign exchange risk*** *(Continued)*

The following table shows the sensitivity analysis on profit before tax of a 5% increase in RMB against HKD and USD. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for the respective changes in rate.

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
5% appreciation in exchange rate against HKD and USD		
Decrease in the profit for the year	**1,736**	(3,147)

(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.

(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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) ***Credit risk*** *(Continued)*

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 2014, the Group had certain concentration of credit risk as approximately 55% (2013: 64%) of the total trade receivables which were due from the Group's five largest customers.

(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 table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk (Continued)

	Less than 3 months RMB'000	Between 3 months and 1 year RMB'000
As at 31 December 2014		
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers and etc.)	51,526	37,636
Borrowings	4,000	25,000
	55,526	62,636
As at 31 December 2013		
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers and etc.)	46,927	37,955
Borrowings	–	10,000
	46,927	47,955

(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 and bank borrowings at variable interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

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 the discounting impact as a result of a shift of the fixed interest rate on the borrowings is not material.

As at 31 December 2014 and 2013, expected change in interest rates has no material impact on the interest income of pledged bank deposits and cash and cash equivalents and interest expense of bank borrowings.

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 were as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Borrowings	**29,000**	10,000
Notes payable	**59,859**	60,879
	88,859	70,879
Total equity	**202,841**	182,403
Gearing ratio	**44%**	39%

The increase in gearing ratio as at 31 December 2014 resulted primarily from the additions of borrowings during the year.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

4.1 Critical accounting estimates and assumptions

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.

4.2 Critical judgements in applying accounting policies

(a) 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.

(b) 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.

5 SEGMENT INFORMATION

The executive directors ("EDs") are chief operating decision-makers. EDs review the Group's internal reporting in order to assess performance and allocate resources. EDs have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and 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.

Revenue and turnover from customers

	2014	2013
	RMB'000	*RMB'000*
Mainland China	**121,154**	81,949
United States of America	**67,858**	98,053
Europe	**20,826**	19,439
Others	**43,957**	51,941
	253,795	251,382

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

The amounts provided to the EDs with respect to total assets are measured in a manner consistent with that of consolidated financial statements.

Non-current assets consist of land use rights, property, plant and equipment and intangible assets which are all located in the PRC as at 31 December 2014 and 2013.

5 **SEGMENT INFORMATION** *(Continued)*

Geographical information *(Continued)*

Information about major customers

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

	2014	2013
	RMB'000	*RMB'000*
Customer A	**42,925**	37,351
Customer B	**40,519**	22,267
Customer C	**28,225**	8,127
Customer D	**11,873**	18,079
Customer E	**8,451**	60,686
	131,993	146,510

6 REVENUE, OTHER INCOME AND OTHER GAIN/(LOSS)

The Group is principally engaged in the sale of products. Revenue, other income and other gain/(loss) recognised are as follows:

	2014 *RMB'000*	2013 *RMB'000*
Revenue		
Sales of goods	**253,795**	251,382
Other income		
Government grants (a)	**2,493**	8,155
Sales of scrap materials	**855**	1,148
Others	**591**	–
	3,939	9,303
Other gain/(loss) – net		
Net foreign exchange loss	**(141)**	(1,730)
Others	**87**	202
	(54)	(1,528)

(a) The amount mainly represents government grants received by Ludao PRC for subsidising its research and development expenditures and fixed assets investments.

7 EXPENSES BY NATURE

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

	2014	2013
	RMB'000	*RMB'000*
Depreciation and amortisation *(Note 13,14,15)*	**4,579**	3,720
Employee benefit expenses, excluding amount included in research and development costs *(Note 8)*	**20,568**	15,070
Raw materials used	**180,489**	181,491
Changes in inventories of finished goods and work in progress	**(2,310)**	(5,012)
Reversal of provision for write-down of inventories – net *(Note 17)*	**–**	(201)
Reversal of bad debts	**–**	(90)
Water and electricity expenditures	**2,516**	2,916
Transportation and travelling expenses	**9,432**	6,450
Telecommunication expenses	**557**	426
Advertising costs	**1,368**	864
Other tax expenses	**1,421**	1,654
Research and development costs		
– Employee benefit expenses *(Note 8)*	**4,137**	4,403
– Materials and others	**2,999**	3,645
Auditor's remuneration – Audit service	**1,440**	1,800
Entertainment expenses	**546**	470
Listing expenses	**–**	8,910
Operating lease expenses	**1,134**	412
Donations	**–**	786
Professional services fees	**1,635**	307
Other expenses	**2,260**	1,910
Total	**232,771**	229,931

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2014 *RMB'000*	2013 *RMB'000*
Wages, allowance and bonus	**21,872**	17,047
Retirement scheme contribution	**1,093**	1,034
Others	**1,740**	1,392
	24,705	19,473

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 the year ended 31 December 2014 (2013: 22%). It is the local government's responsibility to pay the retirement pension to the staffs who retire.

9 DIRECTORS', CHIEF EXECUTIVE'S AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

The directors' emoluments during the year are equivalent to key management compensation.

The remuneration of each director and the chief executive of the Company are set out below:

Name of Directors	Fee		Salary		Employer's contribution to retirement scheme		Total	
	2014 ***RMB'000***	2013 *RMB'000*	**2014** ***RMB'000***	2013 *RMB'000*	**2014** ***RMB'000***	2013 *RMB'000*	**2014** ***RMB'000***	2013 *RMB'000*
Executive Directors								
Mr. Yu Yuerong (i)	**–**	–	**174**	93	**6**	3	**180**	96
Mr. Wang Xiaobing (ii)	**–**	–	**142**	–	**4**	–	**146**	–
Mr. Han Jianhua	**–**	–	**127**	98	**–**	3	**127**	101
Ms. Pan Yili	**–**	–	**127**	92	**4**	3	**131**	95
	–	–	**570**	283	**14**	9	**584**	292
Independent non-executive Directors								
Ms. Cho Mei Ting	**143**	36	**–**	–	**–**	–	**143**	36
Mr. Wong Chi Wai	**143**	36	**–**	–	**–**	–	**143**	36
Mr. Ruan Lianfa	**142**	36	**–**	–	**–**	–	**142**	36
	428	108	**–**	–	**–**	–	**428**	108

(i) Mr. Yu Yuerong is also the chief executive of the Company.

(ii) Appointed on 16 May 2014.

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 year include one (2013: two) directors whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining four individuals (2013: three) during the year are as follows:

	2014 *RMB'000*	2013 *RMB'000*
Wages, allowance and bonus	**664**	397
Retirement scheme contribution	**11**	10
	675	407

During the year, no directors or any of the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by 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 year, the emoluments paid to each of the highest individuals fell within the banding between nil to HKD1,000,000 (2013:nil to HKD1,000,000).

10 FINANCE INCOME – NET

	2014 *RMB'000*	2013 *RMB'000*
Interest income	**467**	565
Interest expense from bank borrowings repayable within 5 years	**(1,214)**	(335)
Finance income – net	**(747)**	230

11 INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000
Current income tax	3,827	5,428
Deferred income tax *(Note 26)*	(173)	21
	3,654	5,449

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

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the year (2013: nil).

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Ludao PRC was qualified as a High and New Technology Enterprise, and accordingly, it is entitled to a preferential rate of 15% for the three years from 1 January 2013 to 31 December 2015. The income tax rate of Ludao PRC for the year ended 31 December 2014 was 15% (2013: 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:

	2014 RMB'000	2013 RMB'000
Profit before income tax	24,162	29,456
Tax calculated at the tax rate of 15% (2013: 15%)	3,624	4,418
Additional research and development deductible expenses	(606)	(633)
Expenses not deductible for tax purposes	636	1,664
	3,654	5,449

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Profit attributable to owners of the Company (RMB'000)	**20,508**	24,007
Weighted average number of ordinary shares in issue (thousands of shares)	**400,000**	322,466
Basic earnings per share (RMB per share)	**0.05**	0.07

For the years ended 31 December 2014 and 2013, diluted earnings per share were the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at year end date.

13 LAND USE RIGHTS

	2014 *RMB'000*	2013 *RMB'000*
Opening net book amount	**1,934**	1,984
Additions	**3,285**	–
Amortisation *(Note 7)*	**(104)**	(50)
Closing net book amount	**5,115**	1,934

	2014 *RMB'000*	2013 *RMB'000*
Cost	**5,776**	2,491
Accumulated amortisation	**(661)**	(557)
Net book amount	**5,115**	1,934

The lease periods of land use rights are 50 years. As at 31 December 2014, the remaining lease periods of the Group's land use rights were 38-49 years (2013: 39 years).

As at 31 December 2014 and 2013, the Group's land use rights were pledged to secure notes payable and borrowings (Note 24(b) and 25).

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office furniture and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013						
Cost	34,342	20,066	2,141	3,486	4	60,039
Accumulated depreciation	(5,190)	(6,943)	(1,375)	(1,185)	–	(14,693)
Net book amount	29,152	13,123	766	2,301	4	45,346
Year ended 31 December 2013						
Opening net book amount	29,152	13,123	766	2,301	4	45,346
Additions	1,252	3,454	257	565	4,163	9,691
Depreciation *(Note 7)*	(1,312)	(1,566)	(288)	(341)	–	(3,507)
Closing net book amount	29,092	15,011	735	2,525	4,167	51,530
At 31 December 2013						
Cost	35,594	23,520	2,398	4,051	4,167	69,730
Accumulated depreciation	(6,502)	(8,509)	(1,663)	(1,526)	–	(18,200)
Net book amount	29,092	15,011	735	2,525	4,167	51,530
Year ended 31 December 2014						
Opening net book amount	29,092	15,011	735	2,525	4,167	51,530
Additions	1,976	1,839	5,934	28	13,263	23,040
Transfer	2,718	2,358	34	–	(5,110)	–
Depreciation *(Note 7)*	(1,609)	(1,790)	(496)	(391)	–	(4,286)
Closing net book amount	32,177	17,418	6,207	2,162	12,320	70,284
At 31 December 2014						
Cost	40,288	27,717	8,366	4,079	12,320	92,770
Accumulated depreciation	(8,111)	(10,299)	(2,159)	(1,917)	–	(22,486)
Net book amount	32,177	17,418	6,207	2,162	12,320	70,284

Depreciation expenses of RMB1,452,000 (2013: RMB1,687,000) have been charged in cost of sales and RMB2,834,000 (2013: RMB1,820,000) have been charged in administrative expenses in the consolidated statement of comprehensive income for the year.

As at 31 December 2014, the Group's buildings at the carrying amount of RMB13,566,000 (2013: RMB21,765,000) were pledged to secure notes payable and borrowings (Note 24(b) and 25).

15 INTANGIBLE ASSETS

	Computer Software *RMB'000*	Patents *RMB'000*	Total *RMB'000*
At 1 January 2013			
Cost	348	581	929
Accumulated amortisation	(63)	–	(63)
Net book amount	285	581	866
Year ended 31 December 2013			
Opening net book amount	285	581	866
Additions	24	169	193
Amortisation charge *(Note 7)*	(38)	(125)	(163)
Closing net book amount	271	625	896
At 31 December 2013			
Cost	372	750	1,122
Accumulated amortisation	(101)	(125)	(226)
Net book amount	271	625	896
Year ended 31 December 2014			
Opening net book amount	271	625	896
Additions	22	–	22
Amortisation charge *(Note 7)*	(39)	(150)	(189)
Closing net book amount	254	475	729
At 31 December 2014			
Cost	394	750	1,144
Accumulated amortisation	(140)	(275)	(415)
Net book amount	254	475	729

Amortisation had been charged in administrative expenses.

16 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2014 RMB'000	2013 RMB'000
Unlisted shares at cost	**13,573**	13,573

Name	Place and date of incorporation/ establishment	Authorised/ registered capital	Paid up capital	Equity interest held	Principal activities and place of operation
Directly held:					
Ludao BVI	Incorporated in British Virgin Island ("BVI") on 18 December 2007	USD100	USD100	100%	Investment holding, BVI
Indirectly held:					
Ludao PRC	Established in the PRC on 23 August 2002	HKD73,350,000	HKD73,350,000	100%	Manufacturing and selling of aerosol products, the PRC

All subsidiaries are limited liability companies.

17 INVENTORIES – GROUP

	2014 RMB'000	2013 RMB'000
Raw materials	**16,320**	15,197
Work in progress	**2,046**	6,666
Finished goods	**15,396**	8,466
Inventories – Net	**33,762**	30,329

The cost of inventories included in cost of sales during the year ended 31 December 2014 amounted to RMB178,179,000 (2013: RMB176,479,000).

During the year, the Group did not make or reverse any provision for inventories (2013: reverse provision for inventory amounting to RMB201,000).

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables, gross and net	**135,502**	89,458	**–**	–
Prepayments and deposits	**48,262**	41,500	**102**	626
Other receivables	**3,585**	1,039	**–**	–
Notes receivable	**–**	50	**–**	–
Amount due from subsidiaries (c)	**–**	–	**48,806**	36,847
	187,349	132,047	**48,908**	37,473

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**146,387**	79,858	**–**	–
USD	**40,860**	51,537	**–**	–
HKD	**102**	652	**48,908**	37,473
	187,349	132,047	**48,908**	37,473

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

18 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:

	2014 *RMB'000*	2013 *RMB'000*
Up to 3 months	**80,201**	71,835
3 to 6 months	**36,321**	16,188
6 to 12 months	**18,026**	125
Over 12 months	**954**	1,310
	135,502	89,458

The Group's sales are mainly made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 52% (2013: 58%) of the Group's revenue for the year. They accounted for approximately 55% (2013: 64%) and of the gross trade receivable balances as at 31 December 2014.

As at 31 December 2014, trade receivables of RMB18,996,000 (2013: RMB1,734,000) were past due but not considered impaired. Included in the amount was RMB15,550,000 due from a major customer. This customer was building a wider sales network for business expansion during the year and settlements were extended to give support to its expansion. Subsequent to year end date, RMB10,800,000 has been received from this customer. The directors have assessed the financial position of this customer and believe that no impairment allowance is required. The remaining balance relate to a number of customers that have good track records 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:

	2014 *RMB'000*	2013 *RMB'000*
3 to 6 months	**16**	299
6 to 12 months	**18,026**	125
Over 12 months	**954**	1,310
	18,996	1,734

As at 31 December 2014, no trade receivables (2013: nil) was impaired or provided for.

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Provision for impairment of trade and other receivables

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

The other classes within trade and other receivables do not contain impaired assets.

(c) The balances with subsidiaries are unsecured, interest-free and repayable on demand.

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at banks and in hand	**26,821**	54,291	**1,496**	15,277

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**23,376**	10,401	**–**	–
HKD	**2,525**	40,620	**1,496**	15,277
USD	**920**	3,270	**–**	–
	26,821	54,291	**1,496**	15,277

The carrying amounts of cash and cash equivalents approximate to their fair values and represent maximum exposure to credit risk. Most cash at banks and in hand was kept in bank accounts opened with banks in the PRC, where the remittance of funds is subject to the PRC foreign exchange control.

20 PLEDGED BANK DEPOSITS – GROUP

	2014 *RMB'000*	2013 *RMB'000*
Pledged bank deposits	**11,982**	18,498

Pledged bank deposits represented bank deposits of the Group which were placed as guarantee deposits for issuing notes payable (Note 24(b)).

As at 31 December 2014, the effective interest rate on pledged bank deposits was 2.80% (2013: 2.80%) 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.

21 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2014 and 2013	
	Number of shares *(thousands)*	*HK$'000*
Authorised Capital:		
Ordinary shares of HK$0.01 each	2,000,000	20,000

	Issued and fully paid: Share capital The Group and Company		Share premium	
			Group	Company
	Number of ordinary shares (of HKD0.01 each)	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	1,000	–	–	–
Issue of shares for the acquisition of a subsidiary	9,000	–	–	13,573
New issue (a)	100,000,000	792	62,608	62,608
Capitalisation issue	299,990,000	2,378	(2,378)	(2,378)
Share issue cost	–	–	(5,920)	(5,920)
Share issue cost transferred from capital reserve	–	–	(2,157)	–
At 31 December 2013 and 2014	400,000,000	3,170	52,153	67,883

(a) On 11 October 2013, 100,000,000 shares of HKD0.01 per share were issued at HKD0.80 each per share through a placing and public offer for HKD80,000,000 (approximately RMB63,400,000). After the New Issue, the issued and fully-paid share capital of the Company increased by HKD1,000,000 (RMB792,500). The difference between the New Issue proceeds and the increased issued and fully-paid share capital, amounting to RMB62,607,500, was credited to the share premium account.

(b) All shares issued rank pari passu against each other.

22 OTHER RESERVES – GROUP

	The Group					The Company
	Capital reserve *RMB'000* *Note (a)*	Merger reserve *RMB'000*	Statutory reserves *RMB'000*	Exchange reserves *RMB'000*	Total *RMB'000*	Exchange reserves *RMB'000*
At 1 January 2013	25,872	–	8,145	901	34,918	–
Reorganisation (a)	(28,029)	28,029	–	–	–	–
Profit appropriation (b)	–	–	3,450	–	3,450	–
Share issuance costs transferred to share premium account	2,157	–	–	–	2,157	–
Wavier of advance from Controlling Shareholder	8,986	–	–	–	8,986	–
Currency translation differences	–	–	–	(1,032)	(1,032)	(273)
At 31 December 2013 and 1 January 2014	8,986	28,029	11,595	(131)	48,479	(273)
Profit appropriation (b)	–	–	2,284	–	2,284	–
Currency translation differences	–	–	–	(70)	(70)	172
At 31 December 2014	8,986	28,029	13,879	(201)	50,693	(101)

(a) The capital reserve as at 1 January 2012 of the Group included the combined share capital and capital reserve of the companies then comprising the Group before the Reorganisation and after elimination of intercompany investment. The amount was transferred to merger reserve upon completion of the Reorganisation.

(b) 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.

23 DEFERRED GOVERNMENT GRANTS – GROUP

	2014 RMB'000	2013 RMB'000
At 1 January	–	–
Receipt of grants	1,423	–
Recognised to consolidated income statement	(123)	–
At 31 December	1,300	–

As at 31 December 2014, the amount mainly represents various government grants received by Ludao PRC for subsidising its investments in fixed assets. There are no unfulfilled conditions and other contingencies attached to government grants that have been recognised as subsidy income.

24 TRADE AND OTHER PAYABLES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Trade payables (a)	26,918	22,920	–	–
Notes payable (b)	59,859	60,879	–	–
Advance from customers	7,051	9,765	–	–
Other tax payables	6,793	1,980	–	–
Accrued expenses	4,700	4,505	160	374
Amount due to a subsidiary (c)	–	–	4,898	4,882
Other payables	2,385	1,083	–	–
	107,706	101,132	5,058	5,256

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
RMB	104,147	94,549	–	–
HKD	227	481	5,058	5,256
USD	3,332	6,102	–	–
	107,706	101,132	5,058	5,256

24 TRADE AND OTHER PAYABLES *(Continued)*

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

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

Group

	2014	2013
	RMB'000	*RMB'000*
Up to 3 months	**15,712**	20,181
3 to 6 months	**7,222**	1,536
6 to 12 months	**1,633**	900
Over 12 months	**2,351**	303
	26,918	22,920

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

(b) Notes payable represented non-interest bearing bank acceptance notes with maturity dates within six months, and were secured by pledged bank deposits (Note 20) and the land use rights and certain property, plant and equipment of the Group (Notes 13 and 14).

(c) The amount due to a subsidiary was unsecured, interest-free and repayable on demand.

25 BORROWINGS – GROUP

The carrying amounts of the borrowings are denominated in RMB, and were approximated to their fair values as at 31 December 2014 and 2013. The weighted average effective interest rate is 6.32% (2013: 6.60%) per annum. As at 31 December 2014, borrowings of RMB20,000,000 were secured by the land use rights and certain property, plant and equipment of the Group (2013: nil) (Note 13 and 14).

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates or maturity dates whichever is the earlier are as follows:

	6 months or less *RMB'000*	6 to 12 months *RMB'000*	Total *RMB'000*
– At 31 December 2014	16,000	13,000	29,000
– At 31 December 2013	7,000	3,000	10,000

26 DEFERRED INCOME TAX – GROUP

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 2014 (2013: nil).

	2014 ***RMB'000***	2013 *RMB'000*
Deferred tax assets:		
– to be recovered within 12 months	**416**	243

26 **DEFERRED INCOME TAX – GROUP** *(Continued)*

The movements in deferred tax assets are as follows:

	Grants Payable *RMB'000*	Accrued expenses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2013	–	220	44	264
Credited/(charged) to the consolidated statement of comprehensive income	–	23	(44)	(21)
At 31 December 2013	–	243	–	243
At 1 January 2014	–	243	–	243
Credited/(charged) to the consolidated statement of comprehensive income	196	(23)	–	173
At 31 December 2014	196	220	–	416

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 2014 (2013: nil).

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 2014, the Group did not recognise deferred tax liabilities of RMB11,627,000 (2013: RMB9,696,000) on approximately RMB116,274,000 (2013: RMB96,961,000) 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.

27 **DIVIDEND**

No dividend has been paid or declared by the Company during the year ended 31 December 2014 (2013: nil).

28 LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statement of the Company to the extent of RMB2,320,000 (2013: RMB9,587,000).

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before income tax to cash generated from operations

	2014	2013
	RMB'000	*RMB'000*
Profit before income tax	**24,162**	29,456
Adjustments for:		
Interest income *(Note 10)*	**(467)**	(565)
Interest expense *(Note 10)*	**1,214**	335
Depreciation of property, plant and equipment *(Note 14)*	**4,286**	3,507
Amortisation of land use right and intangible assets *(Note 13 and 15)*	**293**	213
Reversal of provision for write-down of inventories – net *(Note 17)*	**–**	(201)
Reversal of provision for impairment of trade and other receivable	**–**	(90)
Changes in working capital:		
Increase in trade and other receivables	**(55,302)**	(61,595)
Increase in inventories	**(3,433)**	(5,539)
Increase in trade and other payables	**6,343**	8,649
Cash used in operations	**(22,904)**	(25,830)

30 CONTINGENT LIABILITIES

As at 31 December 2014, the Group and the Company had no significant contingent liabilities (2013: nil).

31 COMMITMENTS

(a) Capital commitments – Group

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

	2014 *RMB'000*	2013 *RMB'000*
Land use rights	–	3,020
Property, plant and equipment	3,206	9,922
	3,206	12,942

(b) Operating lease commitments – Group

The Group leases certain of its office premises under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2014 *RMB'000*	2013 *RMB'000*
Not later than one year	188	203
Later than one year and not later than five years	955	1,903
	1,143	2,106

(c) As at 31 December 2014, the Company had no significant commitment (2013: nil).

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is prepared on the basis set out in the notes below:

RESULTS

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**253,795**	251,382	228,852	212,676	152,189
Cost of sales	**(189,094)**	(188,860)	(173,574)	(163,292)	(116,479)
Gross profit	**64,701**	62,522	55,278	49,384	35,710
Other income and other gain/(loss) – net	**3,885**	7,775	5,110	(365)	(379)
Selling expenses	**(16,109)**	(11,423)	(9,967)	(8,042)	(6,889)
Administrative expenses	**(27,568)**	(29,648)	(22,980)	(14,913)	(10,529)
Finance income – net	**(747)**	(230)	856	462	978
PROFIT BEFORE INCOME TAX	**24,162**	29,456	28,297	26,526	18,891
Income tax expense	**(3,654)**	(5,449)	(4,485)	(4,014)	(2,881)
PROFIT FOR THE YEAR	**20,508**	24,007	23,812	22,512	16,010

ASSETS AND LIABILITIES

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**342,521**	295,800	209,362	192,077	131,614
TOTAL LIABILITIES	**139,680**	113,397	116,400	120,849	83,377
	202,841	182,403	92,962	71,228	48,237

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2013 and 2014 and the consolidated assets and liabilities of the Group as at 31 December 2013 and 2014 are set out on pages 36 to 83 of this annual report.

2. The summary of the consolidated results of the Group for each of the three years ended 31 December 2010, 2011 and 2012 and of the assets and liabilities as at 31 December 2010, 2011 and 2012 have been extracted from the Prospectus.

3. The above summary was prepared as if the current structure of the Group had been in existence throughout these financial years.