



TM

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)




*A Better
World
for Everyone*

INTERIM 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

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HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL BANKER

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China CITIC Bank International

WEBSITE

www.ludaocn.com

STOCK CODE

2023

BUSINESS AT A GLANCE

We are a leading manufacturer of aerosol products in the People's Republic of China ("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.

For the six months ended 30 June 2014, the turnover and net profit of the Group were RMB103.4 million and RMB8.9 million respectively, representing a decrease of approximately 1.9% and 10.1% as compared to the corresponding period of 2013. Basic earnings per share was RMB2 cents.

Our OBM business which offer products under our own brand names of "Green Island", "Ludao"("綠島"), "JIERJIA"("吉爾佳") and "EAGLEIN KING"("鷹王"), mainly operate 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 the PRC, the Group's sales in the PRC has boosted. Besides the increasing distribution network, we will also put additional effort in promoting our products in chain stores and supermarkets as well as e-commerce platform to expand our sales channel.

Looking ahead, the directors of the Company (the "Directors") are still optimistic towards the domestic market, however, due to the increase in competition in the overseas market and the decrease in sales order from one of our major customer, our CMS sales are expected to continue to decrease in the second half of 2014. We are still working towards in becoming the leading domestic enterprise in aerosol manufacturing in the PRC. Our Group will explore different ways to expand the domestic distribution channel and promote our own brand name products. With the installation of the new production line completed in late 2014 and commencing operation in 2015, our Group's production capacities are expected to be significantly increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

CMS

For the six months ended 30 June 2014, the turnover for the Group's CMS business was approximately RMB60.3 million (2013: RMB76.8 million), representing a decrease of approximately 21.5% as compared to the corresponding period in 2013.

The uncertainty in the global economy has continued to depress the consumer spending sentiment. The Group has placed efforts to ensure its products are of their optimal quality in order to maintain its competitiveness against other overseas manufacturers. However, the performance of the Group's CMS business was still impacted by the trend of weak orders from overseas customers. The Group will continue to maintain high quality products with competitive prices and strengthen its CMS business in the second half of this year.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2014 was approximately RMB43.1 million (2013: RMB28.6 million), representing an increase of approximately 50.7% as compared to the corresponding period in 2013.

The Group's development in its OBM business is optimistic through the development of innovative products, enrichment of the product line and promotion of the product image and its brand name. By gaining more loyalty from our domestic customers, our market position in the industry would likely be further improved.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2014 was approximately RMB80.3 million (2013: RMB81.9 million), representing a slightly decrease of approximately 2.0% as compared to the corresponding period of 2013. Such decrease was in line with the overall decrease in the Group's sales of approximately 1.9%.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2014, the Group recorded gross profit of approximately RMB23.1 million (2013: RMB23.6 million) and the gross profit margin was approximately 22.3% (2013: 22.3%). As there was no material changes to the cost of production of our products, the gross profit margin had remained stable.

Other Income and Other Gains – Net

Other income and other gains of the Group was approximately RMB3.6 million (2013: RMB4.3 million), representing a decrease of approximately RMB0.7 million as compared to the corresponding period of 2013. The decrease was primarily due to the decrease in the sales of scrap materials of approximately RMB0.7 million.

Expenses

Selling Expenses

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the six months ended 30 June 2014, selling expenses was approximately RMB5.7 million (2013: RMB5.1 million), representing an increase of approximately 11.8% as compared to the corresponding period of 2013. The increase was primarily due to the increase in staff cost due to the expansion of our domestic distribution channel during the period.

Administrative Expenses

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2014, administrative expenses was approximately RMB9.9 million (2013: RMB11.1 million), representing a decrease of approximately 10.8% as compared to the corresponding period of 2013. The decrease was primarily due to the listing expenses amounted to approximately RMB1.9 million incurred for the six months ended 30 June 2013.

Finance income – net

For the six months ended 30 June 2014, the Group recorded net finance income of approximately RMB0.4 million (2013: RMB0.2 million), representing an increase of approximately RMB0.2 million as compared to the corresponding period of 2013. The increase in net finance income was due to the net impact of (i) increase in interest income of approximately RMB0.2 million; and (ii) increase in interest expense of approximately RMB0.1 million.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2014 was RMB2.4 million, representing an increase of approximately RMB0.4 million as compared with approximately RMB2.0 million for the corresponding period of 2013. Effective income tax rate for the current period was approximately 21.2%, which was higher as compared with approximately 16.8% for the corresponding period of 2013. The higher effective income tax rate was due non-deductible expenses incurred outside the PRC.

Net Profit

The Group's net profit for the six months ended 30 June 2014 was approximately RMB8.9 million (2013: RMB9.9 million), representing a decrease of approximately 10.1% as compared to the corresponding period of 2013. Net profit margin for the six months ended 30 June 2014 was approximately 8.6% (2013: 9.4%) representing a decrease of approximately 0.8% as compared to the corresponding period of 2013. Such decrease was primarily due to the net impact of (i) decrease in other income and other gains of approximately RMB0.7 million; (ii) decrease in administrative expenses of approximately RMB1.2 million; (iii) increase in selling expenses of approximately RMB0.6 million; and (iv) increase in income tax expense of approximately RMB0.4 million, for the six months ended 30 June 2014 as compared to corresponding period of 2013.

Highlights of Balance Sheet

Trade Receivable

As at 30 June 2014, trade receivable of RMB21.4 million was overdue, the Board considered such increase was substantial as compared to the amount of RMB1.7 million for the year ended 31 December 2013. 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 RMB21.4 million was overdue, provision of doubtful debt was not considered necessary by the Board after taking into account the following factors:

- (i) RMB9.5 million was settled by the customers in respect of the overdue trade receivables of RMB21.4 million;
- (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 third quarter of 2014.

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 30 June 2014	As at 31 December 2013
	RMB'000	RMB'000
Prepayment to suppliers of raw materials	29,060	9,337
Deposits for price-locking agreements	28,000	28,000
Rental Deposits	1,070	971
Other prepayments & deposits	8,349	3,192
	<u>66,479</u>	<u>41,500</u>

The significant increase in prepayment to suppliers was primarily due to the increase in prepayment to Zhejiang Lujia Container Co., Ltd ("Zhejiang Lujia") from RMB3.2 million as at 31 December 2013 to RMB20.7 million as at 30 June 2014. The management has requested Zhejiang Lujia to return part of its prepayment after considering the potential drop of the tin can price in the second half of the year. As such, approximately RMB10.0 million had been subsequently settled as at the date of this report. In respect of the remaining prepayment of approximately RMB10.7 million to Zhejiang Lujia, RMB5.4 million has been settled through the purchase of aerosol cans as at the date of this report and RMB5.3 million should be settled at the end of October 2014.

Other prepayments & deposits include prepayment for advertising and marketing expenses, transportation expenses, professional expenses and prepayment and deposits for utility expenses. Approximately RMB4.0 million had been subsequently settled as at the date of this report. The remaining other prepayment is expected to be settled before 30 June 2015.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2014, the total assets of the Group amounted to approximately RMB299.7 million (31 December 2013: RMB295.8 million), and net current assets of approximately RMB117.4 million (31 December 2013: RMB121.8 million).

The gearing ratio (based on the total debt over the total equity) of the Group has decreased from 39% as at 31 December 2013 to 29% as at 30 June 2014. The majority of borrowings are on floating interest rate terms.

Bank borrowings of the Group, which were unsecured and denominated in Renminbi, amounted to RMB15.0 million as at 30 June 2014 (31 December 2013: RMB10.0 million) with full amount expiring before 30 June 2015. Bank borrowings were mainly used for working capital management and/or financing the Group's purchases.

The Group adopts a prudent approach in its financial management and has maintained a stable financial position throughout the six months ended 30 June 2014 as demonstrated by the above figures.

Contractual Obligations

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 30 June 2014, the Group's operating lease commitment amounted to approximately RMB2.0 million (31 December 2013: RMB2.1 million). As at 30 June 2014, the Group capital commitments amounted to RMB1.4 million (31 December 2013: RMB12.9 million).

Contingent Liabilities

As at 30 June 2014, the Group did not have any significant contingent liabilities.

Exchange Rate Exposure

During the six months ended 30 June 2014, 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 recognized 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 Policy

As at 30 June 2014, the Group had employed a total of 359 employees (31 December 2013: 341). 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, and involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the period.

Material Investments Held

The Group had no material investment, save for the investment in the new land use right in Sanmen Industry Zone, Taizhou City, Zhejiang Province, the PRC, with the investment cost amounted to RMB3.3 million.

Use of Net Proceeds from Initial Public Offering

The Group has received approximately HK\$59.3 million total net proceeds, after deducting underwriting fee and other related expenses, from the listing of the Company's shares on 11 October 2013 (the "Listing Date"). These proceeds were applied during the period under review in accordance with the proposed applications as stated in the prospectus dated 30 September 2013 to the date of this report, as follows:

	Actual net proceeds HK\$ million	Amount utilized up to the date of this report HK\$ million
To increase production capacity		
by financing the first phase of constructing new production facility	32	17
To expand the domestic distribution channel	14	7
To promote our own brand names		
by increasing marketing and advertising efforts	7	2
To fund the working capital requirement	6	6
	<hr/>	<hr/>
Total	59	32
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The unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and the PRC in accordance with the intention of the Board as disclosed in the prospectus.

Future Plans and Prospects

The second half of 2014 appears to be challenging for the Group's CMS business due to the increase in competition from other overseas manufacturers. However, 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 as well as direct customer network. In addition, the Group will strive to further develop our logistics channel to cope with the rising cost of travelling and transportation expenses. Further capital will be invested in enhancing the Group's product development and capabilities.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the six months ended 30 June 2014, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2014.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	(Unaudited)	
		Six months ended 30 June 2014 RMB'000	2013 RMB'000
Revenue	6	103,427	105,408
Cost of sales		(80,346)	(81,858)
Gross profit		23,081	23,550
Other income and other gains – net	6	3,559	4,282
Selling expenses		(5,741)	(5,118)
Administrative expenses		(9,932)	(11,058)
Operating profit		10,967	11,656
Finance income	8	549	325
Finance costs	8	(190)	(79)
Finance income – net		359	246
Profit before income tax		11,326	11,902
Income tax expense	9	(2,393)	(2,012)
Profit for the period		8,933	9,890
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		(566)	(161)
Total comprehensive income for the period		8,367	9,729
Earnings per share for profit attributable to owners of the Company during the period			
– basic and diluted	10	0.02	0.03

The notes on pages 17 to 28 form an integral part of this interim condensed consolidated financial statements.

Detail of dividends to equity holders of the Company are set out in Note 17.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
	Note		
ASSETS			
Non-current assets			
Land use rights	11	5,168	1,934
Property, plant and equipment	12	57,411	51,530
Intangible assets		802	896
Deferred income tax assets		221	243
Prepayment for property, plant and equipment and land use right		9,759	6,032
		<u>73,361</u>	<u>60,635</u>
Current assets			
Inventories		42,733	30,329
Trade and other receivables	13	160,896	132,047
Cash and cash equivalents		11,136	54,291
Pledged bank deposits		11,569	18,498
		<u>226,334</u>	<u>235,165</u>
Total assets		<u>299,695</u>	<u>295,800</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	3,170	3,170
Share premium		52,153	52,153
Other reserves		47,913	48,479
Retained earnings		87,534	78,601
Total equity		<u>190,770</u>	<u>182,403</u>

The notes on pages 17 to 28 form an integral part of this interim condensed consolidated financial statements.

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

		(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
	Note		
LIABILITIES			
Current liabilities			
Trade and other payables	14	92,653	101,132
Current income tax liabilities		1,272	2,265
Borrowings		15,000	10,000
		<u>108,925</u>	<u>113,397</u>
Total liabilities		<u>108,925</u>	<u>113,397</u>
Total equity and liabilities		<u>299,695</u>	<u>295,800</u>
Net current assets		<u>117,409</u>	<u>121,768</u>
Total assets less current liabilities		<u>190,770</u>	<u>182,403</u>

The notes on pages 17 to 28 form an integral part of this interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Unaudited				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2013	–	–	34,918	58,044	92,962
Comprehensive income					
Profit for the period	–	–	–	9,890	9,890
Currency translation differences	–	–	(161)	–	(161)
Total comprehensive income	–	–	(161)	9,890	9,729
Balance at 30 June 2013	–	–	34,757	67,934	102,691

For the six months ended 30 June 2014

	Unaudited				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2014	3,170	52,153	48,479	78,601	182,403
Comprehensive income					
Profit for the period	–	–	–	8,933	8,933
Currency translation differences	–	–	(566)	–	(566)
Total comprehensive income	–	–	(566)	8,933	8,367
Balance at 30 June 2014	3,170	52,153	47,913	87,534	190,770

The notes on pages 17 to 28 form an integral part of this interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited)	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Net cash used in operating activities	(22,158)	(15,078)
Net cash used in investing activities	(6,237)	(4,157)
Net cash used in financing activities	(14,787)	(2,779)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(43,182)	(22,014)
Currency translation differences	27	–
Cash and cash equivalents at beginning of the period	54,291	36,284
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	11,136	14,270
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents	11,136	14,270
	<hr/>	<hr/>

The notes on pages 17 to 28 form an integral part of this interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Ludao Technology Company Limited was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) of the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1180, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sale of air fresheners, aerosol insecticides, household cleaners and auto care products in the 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" or "Mr. Yu"). The ultimate controlling party of the Group is Mr. Yu Yuerong.

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 25 August 2014.

2 BASIS OF PREPARATION

This unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

None of the new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2014 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 16 and HKAS 38 (amendment)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 9 and HKFRS 7 (amendments)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 9	Financial instruments	1 January 2015
HKAS 19 (amendments)	Defined benefit plans	1 July 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 11 (amendment)	Accounting for acquisitions of interests in joint operation	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017

The Group did not early adopt any of these new or revised HKAS and HKFRS, amendments and interpretation to existing HKAS and HKFRS. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4 ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5 SEGMENT INFORMATION

Management reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports reviewed by the executive directors of the companies comprising the Group that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and relative products which is considered by management as one single business segment.

Geographical information

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

Revenue from external customers

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
United States of America	46,878	65,689
Mainland China	43,148	28,623
Europe	8,328	6,285
Others	5,073	4,811
	103,427	105,408

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

Non-current assets

Non-current assets for this purpose consist of land use rights, property, plant and equipment and intangible assets which are all located in the PRC as at 30 June 2014 and 31 December 2013.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 SEGMENT INFORMATION (Continued)

Information about major customers

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Ningbo Rejoyce Import and Export Co., Ltd.	27,666	10,486
Yiwu Weijia Cosmetics Co. Ltd.	17,259	4,356
Grand Market International Ltd.	8,950	3,390
Fayeshine D and M Co., Ltd.	1,891	38,124
	<u>55,766</u>	<u>56,356</u>

6 REVENUE, OTHER INCOME AND OTHER GAINS/(LOSSES) – NET

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Revenue		
Sales of goods	<u>103,427</u>	<u>105,408</u>
Other income and other gains/(losses) – net		
Government grants (a)	2,850	3,861
Sales of scrap materials	–	773
Others	<u>709</u>	<u>(352)</u>
	<u>3,559</u>	<u>4,282</u>

- (a) The amount mainly represents government grants received by Ludao PRC for subsidizing its research and development expenditures, and as an incentive for the Company to attempt an initial public offering and listing of its shares on Main Board of The Stock Exchange of Hong Kong Limited.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

7 DIRECTORS' EMOLUMENTS

The Directors' and chief executive's emoluments during the six months ended 30 June 2014 are equivalent to key management compensation, and is as follows:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Fees	216	–
Salaries	226	150
Pension scheme contributions	24	5
	<hr/>	<hr/>
Total compensation paid to key management personnel	466	155
	<hr/>	<hr/>

8 FINANCE INCOME – NET

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Interest income	549	325
Interest expense	(190)	(79)
	<hr/>	<hr/>
Finance income – net	359	246
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

9 INCOME TAX EXPENSE

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

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

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

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the six months ended 30 June 2014.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), the companies comprising the Group which were established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Ludao PRC was qualified as a High and New Technology Enterprise, and accordingly it is entitled to the preferential rate of 15% for the three years from 1 January 2013 to 31 December 2015. The income tax rate of Ludao PRC for the six months ended 30 June 2014 was 15% (2013: 15%).

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current income tax	2,370	2,329
Deferred income tax	23	(317)
	2,393	2,012

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10 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 six months ended 30 June 2013 and 2014.

	Six months ended 30 June	
	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	<u>8,933</u>	<u>9,890</u>
Weighted average number of ordinary shares in issue (thousands of shares)	<u>400,000</u>	<u>300,000</u>
Basic earnings per share (RMB per share)	<u>0.02</u>	<u>0.03</u>

11 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land occupied by the Group in the PRC and the amount is analysed as follows:

	2014	2013
	RMB'000	RMB'000
Net book amount as at 1 January	1,934	1,984
Addition	3,286	–
Amortisation	(52)	(50)
Net book amount as at 30 June/31 December	<u>5,168</u>	<u>1,934</u>

As at 30 June 2014 and 31 December 2013, the Group's land use rights were pledged to secure notes payable.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

12 PROPERTY, PLANT AND EQUIPMENT

	2014 RMB'000	2013 RMB'000
Net book amount as at 1 January	51,530	45,346
Additions	7,652	9,691
Depreciation provided during the period/year	(1,771)	(3,507)
	<hr/> 57,411	<hr/> 51,530
Net book amount as at 30 June/31 December	57,411	51,530

As at 30 June 2014 and 31 December 2013, the Group's notes payable were secured by certain property, plant and equipment of the Group.

13 TRADE AND OTHER RECEIVABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade receivables (a)	90,691	89,458
Prepayments and deposits	66,479	41,500
Other receivables	3,726	1,039
Notes receivable	—	50
	<hr/> 160,896	<hr/> 132,047

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2014 and 31 December 2013 respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 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:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Up to 3 months	47,924	71,835
3 to 6 months	21,397	16,188
6 to 12 months	20,065	125
Over 12 months	1,305	1,310
	90,691	89,458

The Group's sales are made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 58% (31 December 2013: 58%) of the Group's revenue for the period. They accounted for approximately 61% (31 December 2013: 64%) of the gross trade receivable balances as at 30 June 2014.

14 TRADE AND OTHER PAYABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade payables (a)	35,017	22,920
Notes payable (b)	41,092	60,879
Advance from customers	11,637	9,765
Other tax payables	2,036	1,980
Accrued expenses	2,579	4,505
Other payables	292	1,083
	92,653	101,132

The fair values of trade and other payables approximated to their carrying values as at 30 June 2014 and 31 December 2013 respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

14 TRADE AND OTHER PAYABLES *(Continued)*

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Up to 3 months	27,183	20,181
3 to 6 months	6,445	1,536
6 to 12 months	618	900
Over 12 months	771	303
	35,017	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 guaranteed by pledged bank deposits and secured by certain property, plant and equipment and the land use rights of the Group.

15 SHARE CAPITAL

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Authorized:		
2,000,000,000 ordinary shares of HK\$0.01 each	20,000	20,000
Issued and fully paid:		
400,000,000 ordinary shares of HK\$0.01 each	4,000	4,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 RELATED PARTY TRANSACTIONS

The Directors of the Company are of the view that the following companies and individuals were related parties that had transactions or balances with the Group during the period:

Name of the related party	Principal business activities	Relationship with the Group
Yiwu Weiwei Cosmetics Co. Ltd ("Yiwu Weiwei")	Manufacture and sales of flavours, fragrances and refined chemical products in the PRC	An entity controlled by a close family member of the Controlling Shareholder

(a) Transactions with related parties

Save as the related party transactions disclosed in above, the following transactions with related parties were undertaken by the Group.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Sales of goods to Yiwu Weiwei	—	195

In the opinion of the Directors of the Company, the above related party transactions were carried out at terms mutually negotiated between the Group and the respective related companies.

(b) Balances with related parties

There was no outstanding balances from related parties as at 30 June 2014 and 31 December 2013.

(c) Key management compensation

Key management personnel are deemed to be the members of the Board of Directors of the companies comprising the Group which has the responsibility for planning, directing and controlling the activities of the Group. Details of key management compensation have been disclosed in Note 7.

17 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2014 (2013: HK\$ nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 CONTINGENT LIABILITIES

As at 30 June 2014, the Group and the Company had no significant contingent liabilities (31 December 2013: nil).

19 COMMITMENTS

(a) Capital commitments – the Group

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Land use rights	–	3,020
Property, plant and equipment	<u>1,355</u>	<u>9,922</u>
	<u>1,355</u>	<u>12,942</u>

Approximately RMB4.4 million capital expenditure contracted for but not yet incurred as at 31 December 2013 was terminated during the six months ended 30 June 2014, being mutually agreed by the corresponding suppliers and the Company, due to certain equipment unavailable from the suppliers.

(b) Operating lease commitments

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:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Not later than one year	203	203
Later than one year and not later than five years	<u>1,801</u>	<u>1,903</u>
	<u>2,004</u>	<u>2,106</u>

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 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 ("SFO"), which (a) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("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 ("Model Code") as set out in Appendix 10 of The Rules Governing the Listing of Securities on the Stock Exchange (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 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, the following persons (not being a Director or chief executive of the Company) 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 (note 2)	Beneficial owner	29,700,000 Shares	7.425%
China Flavors and Fragrances Company Limited ("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%

SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

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.

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 six months ended 30 June 2014 and up to and including the date of this interim report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

At no time during the period under review was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 16 September 2013 for the purpose of rewarding certain eligible persons for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 12 October 2013.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any Directors or proposed Director (including non-executive Director and independent non-executive Directors) of the Company or any of its subsidiaries; any direct or indirect shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date, i.e. 40,000,000 shares of the Company.

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

AUDIT COMMITTEE

The audit committee (the "Audit Committee") was established with terms of reference which has been adopted for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, reviewing the financial statements and related materials and providing advice in respect of the financial reporting process, and overseeing the internal control procedures of the Group. 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. The Group's accounting principles and practices, financial statements and related materials for the period had been reviewed by the Audit Committee.

AUDIT COMMITTEE *(Continued)*

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited condensed consolidated financial statements matters of the Group for the six months ended 30 June 2014 and recommended its adoption by the Board.

REMUNERATION COMMITTEE

The remuneration committee (the “Remuneration Committee”) was set up to consider and approve the remuneration policy and structure relating to the Directors and senior management of the Group, reviewing and evaluating their performance in order to make recommendations on the remuneration package of each of the Directors and senior management personnel as well as other employee benefit arrangements. 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.

NOMINATION COMMITTEE

The nomination committee (the “Nomination Committee”) was set up to review the structure, size and diversity (including but not limited to gender, age, cultural and educational background or professional experiences) of the Board from time to time and recommends to the Board on the appointment of Directors and the management of the Board succession. 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.

CORPORATE GOVERNANCE PRACTICES

For the period under review, in the opinion of the Directors, 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 Listing Rules on the Stock Exchange except CG Code provision A.2.1.

CORPORATE GOVERNANCE PRACTICES *(Continued)*

Pursuant to the CG Code provision A.2.1, the role(s) of chairman and chief executive should be separated and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Yu Yuerong, 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules for the six months ended 30 June 2014 and to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

By order of the Board
Yu Yuerong
Chairman & Executive Director

Hong Kong
25 August 2014