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中國綠島科技有限公司 China Ludao Technology Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2023)



ANNUAL REPORT
2015



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Corporate Information

EXECUTIVE DIRECTORS

Mr. Yu Yuerong (*Chairman*)
Mr. Chen Baoyuan (appointed on 1 August 2015)
Mr. Han Jianhua (resigned on 1 August 2015)
Ms. Pan Yili
Ms. Wang Jinfei (appointed on 1 August 2015)
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

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 Hongkong and Shanghai Banking
Corporation Limited

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 2015 (the “Reporting Period”).

Throughout the Reporting Period, the global economy recovered gradually during 2015 with steady growth in the retail markets. The Group had been benefited from such recovery as evidenced by the increase in sales orders from overseas customers, especially in the United States. The Group is confident to grasp the recovery trend and sustain our competitiveness in the global market. Among the emerging markets, only the People's Republic of China (the “PRC”) showed stable growth. However, the growth rate of the gross domestic product of the PRC has slowed down to approximately 6.9% for the year of 2015, which was the worst performance over the last decade. As such, the Group had been inevitably affected and the sales orders from Chinese customers had been decreased during the Reporting Period.

Though the Chinese economy has entered into a new normal with anticipated severe challenges of superimposing conflicts and increasing hidden risks, China's process of deepening reform and improving the people's living standard will present important strategic opportunities for the Group's development. In the meantime, the urbanization of various countries worldwide will continue to drive the consumption of aerosol products, including the increase of demand for aerosol products for personal care, household and auto care.

As one of the few leading manufacturers of aerosol products in the PRC, we have numerous well-known brand name products (including “Green Island”, “Ludao”, “JIERJIA” and “EAGLEIN KING”), large production line capacity, leading capabilities of scientific and technology innovation, extensive domestic distribution channels and network and well-defined human resources training and management systems.

We are striding forward with head high when facing the year 2016. The Group will continue to strive for the promising future and expansion of the Group by improving our research and development capabilities of aerosol products, focusing on the development of high value added aerosol products, controlling operating costs, expanding production capacity, improving our core product competitiveness and brand images and exploring new markets.

In closing, on behalf of the Board, I extend my sincere appreciation to the management team and staffs of the Group for their contribution and also give our gratitude to all our shareholders for their continuous support in this challenging year. We expect the year ahead to be full of opportunities and challenges. As always, we strive to create greater value for our shareholders and investors.

Yu Yuerong

Chairman and Executive Director

Hong Kong, 23 March 2016

Management Discussion and Analysis

BUSINESS REVIEW

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 gradual recovery of the global economy, the Group’s CMS sales had substantially increased during the Reporting Period, which offset the adverse impact resulted from the decrease in OBM business. Besides maintaining the Group’s current competitiveness in the global markets, we intend to put additional effort in promoting our products in chain stores and supermarket as well as e-commerce platform in the PRC market so as to retrieve our OBM business.

For the Reporting Period, the turnover and net profit of the Group were approximately RMB266.0 million and RMB3.6 million respectively, representing an increase of approximately 4.8% and a decrease of approximately 82.6% respectively over 2014. Basic earnings per share was approximately RMB1 cents (2014: RMB5 cents). For illustrative purpose only, the Company recorded net profit of approximately RMB24.5 million before the share option expenses for the Reporting Period, which represent an increase in net profit of approximately 19.4% as compared to year 2014.

FINANCIAL REVIEW

Turnover

CMS

For the Reporting Period, the turnover for the Group’s CMS business was approximately RMB191.3 million (2014: RMB132.6 million), representing an increase of approximately 44.3% as compared with last year.

The global economy recovered gradually during 2015 with steady growth in the retail markets. The Group’s CMS business has benefited from such recovery as evidenced by the increase in sales orders from overseas customers. However, there are concerns that such trend may not be sustainable. As such, the Group continue to maintain high quality products with competitive prices and strengthen its CMS business for the year 2016.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Turnover *(Continued)*

OBM

The turnover for OBM business of the Group for the Reporting Period was approximately RMB74.7 million (2014: RMB121.2 million), representing a decrease of approximately 38.4% as compared with last year.

With the gradual decelerating growth in the total retail sales of consumer goods in the PRC and the increasing competition in the aerosol products segment, the Group's OBM business had been adversely affected by the slowdown in order placement from domestic customers. The Group will strive to counterbalance such impact through the continuous development of innovative products, enrichment of the product line and promotion of the product image and its brand name. Based on the loyalty gained from our domestic customers and the well-established market position in the industry, the Group is still optimistic towards its OBM business.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB200.3 million (2014: RMB189.1 million), amongst which approximately RMB1.8 million share options expense was incurred from the share options granted, representing an increase of approximately 5.9% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB65.7 million (2014: RMB64.7 million), representing an increase of approximately 1.5% as compared to that of the prior year. The gross profit margin was approximately 24.7% (2014: 25.5%), which had no material change as compared to that of the prior year.

Management Discussion and Analysis

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 RMB18.5 million (2014: RMB16.1 million), representing an increase of approximately 14.9% as compared to that of the prior year. The increase was due to (i) the increase in transportation expenses incurred from the sales to the Group's overseas customers; and (ii) the share options expenses of approximately RMB2.1 million incurred from the issuance of share options, during the Reporting Period.

Administrative Expenses

Administrative expenses consist of staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the Reporting Period, administrative expenses was approximately RMB46.4 million (2014: RMB27.6 million), amongst which approximately RMB17.0 million share options expense was incurred from the issuance of share options, representing an increase of approximately 68.1% as compared to that of the prior year. The significant increase in administrative expenses was primarily due to the share option expenses incurred during the Reporting Period. For illustrative purpose only, the Company recorded administrative expenses of approximately RMB29.4 million before the share option expenses for the Reporting Period, which represent an increase of approximately 6.5% as compared to year 2014.

Finance expense – net

For the Reporting Period, the Group recorded net finance income of approximately RMB1.8 million (2014: net finance expenses RMB0.7 million), representing an increase of approximately RMB2.5 million as compared to that of the prior year. The increase in finance income was primarily due to the increase in foreign exchange gain of approximately RMB2.3 million.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB4.2 million, representing an increase of approximately RMB0.5 million as compared with RMB3.7 million in 2014. Effective income tax rate for the current period was approximately 54.4%, which was higher as compared with approximately 15.1% over 2014. The higher effective income tax rate was due to the increase in expenses not deductible for tax purposes.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Net Profit

The Group's net profit for the Reporting Period was approximately RMB3.6 million (2014: RMB20.5 million), representing a decrease of approximately 82.6% when compared to the prior year. The net profit margin of the Group decreased from 8.1% in 2014 to 1.3% in 2015. Such decrease was primarily due to the share option expenses incurred of approximately RMB20.9 million during the Reporting Period. For illustrative purpose only, the Company recorded net profit of approximately RMB24.5 million before the share option expenses for the Reporting Period, which represent an increase in net profit of approximately 19.4% as compared to year 2014.

HIGHLIGHT OF BALANCE SHEET

Trade Receivable

As at 31 December 2015, trade receivable of approximately RMB3.9 million were past due, representing a decrease of approximately 79.5% as compared to the amount of RMB19.0 million as at 31 December 2014. As at 31 December 2015, trade receivables of approximately RMB231,000 were impaired (2014: nil). The amount of the provision was RMB231,000 as at 31 December 2015 (2014: nil). The individually impaired receivables mainly relate to wholesalers, which were no longer dealing with the Company for more than 2 years. It was assessed that all of the receivables would not be recovered.

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 | |
|--|-------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Prepayment to suppliers of raw materials | 17,587 | 17,976 |
| Deposits for price-locking agreements | 22,900 | 28,000 |
| Other prepayments & deposits | 1,787 | 2,286 |
| | 42,274 | 48,262 |

Management Discussion and Analysis

HIGHLIGHT OF BALANCE SHEET *(Continued)*

Prepayment & deposits *(Continued)*

Of the RMB17.6 million prepayment of raw materials, the Company had made RMB16.4 million prepayment to 4 different major suppliers.

Deposits for price-locking agreements had decreased to RMB22.9 million as the price of tinfoil aerosol cans had dropped due to the decrease in the price of tinfoil and as such, a lower deposit for the price-locking agreement was negotiated.

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 for the year ended 31 December 2015.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the total assets of the Group amounted to approximately RMB412.6 million (2014: RMB342.5 million), and net current assets of approximately RMB216.2 million (2014: RMB121.5 million). The gearing ratio (based on the total debt over the total equity) of the Group has decreased from approximately 44% as at 31 December 2014 to 19% as at 31 December 2015. The decrease in gearing ratio as at 31 December 2015 resulted primarily from (i) the increase in equity of the Group resulted from the placing of new shares of the Company (the “Shares”) in May 2015; and (ii) the decrease in bank borrowing of approximately RMB29.0 million during the Reporting Period. Details of the Group’s gearing ratio are set out in note 3.2 to the audited consolidated financial statements.

BORROWINGS

The Group had no borrowings as at 31 December 2015 (2014: RMB29.0 million). As at 31 December 2015, no borrowings were secured by land use right and certain property, plant and equipment of the Group.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company’s reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB156.2 million (2014: RMB55.7 million). This includes the Company’s Share premium account of approximately RMB149.9 million as at 31 December 2015 (2014: RMB67.9 million), 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.

Management Discussion and Analysis

CAPITAL STRUCTURE

During the Reporting Period, the Company's share capital increased from approximately RMB3.2 million to RMB3.8 million.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2015, the Group's operating lease commitment amounted to approximately RMB0.3 million (2014: RMB1.1 million). As at 31 December 2015, the Group had capital commitments of approximately RMB4.3 million (2014: RMB3.2 million).

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities (2014: nil).

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 2015, the Group had employed a total of 373 employees (2014: 367). 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. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonuses and the Group's contribution to mandatory provident funds (or state-managed retirement benefits scheme). Other benefits include share options granted or to be granted under the Share Option Schemes and training schemes. The Group will review the remuneration policy and related packages on a regular basis.

Management Discussion and Analysis

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group invested RMB20.7 million in property, plant and equipment (2014: RMB23.0 million). Other than the above, the Group did not have any significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the year ended 31 December 2015, the net proceeds from the Initial Public Offering (“IPO”) had been applied as follows:

| | Actual net proceeds HK\$ million | Amount utilised up to 31 December 2015 HK\$ million | Balance unutilised balance as at 31 December 2015 HK\$ million |
|--|--|---|---|
| To increase production capacity by financing the first phase of constructing new production facility | 32 | 32 | – |
| To expand the domestic distribution channel | 14 | 13 | 1 |
| To promote our own brand names by increasing marketing and advertising efforts | 7 | 3 | 4 |
| To fund the working capital requirement | 6 | 6 | – |
| Total | 59 | 54 | 5 |

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”).

FUND RAISING ACTIVITIES

The Directors have considered various ways of raising funds and considered that the placings of the Shares represent an attractive opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company. During the Reporting Period, the Group has earned support to raise funds by placing of new shares. These additional funds serve as significant financial support for enhancing liquidity and future development.

Management Discussion and Analysis

FUND RAISING ACTIVITIES *(Continued)*

On 11 May 2015, the Company issued 80,000,000 new Shares of HK\$0.01 each to not less than six independent third parties at a price of HK\$1.33 per share under the general mandate granted to the Directors at the annual general meeting of the Company held on 8 May 2014 (the “Placing”). The Placing was announced on 27 April 2015 (the “Announcement”) and the closing price of the Shares was HK\$1.66 on the last trading day as at 27 April 2015. The net proceeds of approximately HK\$104.6 million were intended to be used for the general working capital of the Group. As at 31 December 2015, (i) approximately HK\$35.3 million had been used for the repayment of borrowings and notes payable; and (ii) approximately HK\$15.6 million had been used for the general operating expenses of the Group, and the remaining balance of HK\$53.7 million is kept in an interest bearing bank account pending for usage.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The new production plant, as disclosed in the Company’s announcement on 15 June 2015, is still under trial run. The Company expects the new production plant will be fully operational in 2016. The Company had invested RMB10.3 million into the new production plant during the Reporting Period and no material investment is expected in 2016 for the new production plant.

Going forward, the Group will continue to promote our own brand names under our OBM business and sustain our competitiveness in the aerosol products manufacturing market in the PRC. Meanwhile, the Group will continue to explore new business opportunities in the overseas market so as to promote a more diversified quality customer base by strengthening our distribution network.

PROSPECTS

Throughout the Reporting Period, the global economy grew slowly. We expect a stable development of the Group’s CMS business. 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, controlling operating 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 2015.

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 recognises 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 2015 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 2015. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the Model Code during the Reporting Period.



Corporate Governance Report

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) and 3.10(2) 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 maximise 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.

Corporate Governance Report

Board Composition

As at 31 December 2015, 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. Chen Baoyuan (appointed on 1 August 2015)

Mr. Han Jianhua (resigned on 1 August 2015)

Ms. Pan Yili

Ms. Wang Jinfei (appointed on 1 August 2015)

Mr. Wang Xiaobing

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 22 to 24 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.

Corporate Governance Report

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 (i) Mr. Wang Xiaobing whose service contract is engaged with the Company on 16 May 2014; and (ii) Mr. Chen Baoyuan and Ms. Wang Jinfei whose service contracts are engaged with the Company on 1 August 2015), 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.

Corporate Governance Report

In accordance with the Articles, Mr. Yu Yuerong, Mr. Chen Baoyuan, Ms. Pan Yili, Ms. Wang Jinfei and Mr. Wang Xiaobing shall retire and, being eligible, offer themselves for re-election at the forthcoming 2016 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 five 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 Reporting Period, there were six board meetings held.



Corporate Governance Report

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 three meetings for discussion on issues arising from the audit and financial reporting matters.

Corporate Governance Report

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 were 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.

Corporate Governance Report

DIRECTORS' ATTENDANCE

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company held during the Reporting Period:

| | Meetings attended/held | | | | |
|--|------------------------|-----------------|------------------------|----------------------|------------------|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | General Meetings |
| <i>Executive Directors</i> | | | | | |
| Mr. Yu Yuerong (<i>Note 1</i>) | 6/6 | N/A | 3/3 | 2/2 | 1/1 |
| Mr. Chen Baoyuan (<i>Note 2</i>) | 3/3 | N/A | N/A | N/A | 1/1 |
| Mr. Han Jianhua (<i>Note 3</i>) | 3/3 | N/A | N/A | N/A | 1/1 |
| Ms. Pan Yili | 6/6 | N/A | N/A | N/A | 1/1 |
| Ms. Wang Jinfei (<i>Note 4</i>) | 3/3 | N/A | N/A | N/A | 1/1 |
| Mr. Wang Xiaobing | 6/6 | N/A | N/A | N/A | 1/1 |
| <i>Independent Non-Executive Directors</i> | | | | | |
| Ms. Cho Mei Ting (<i>Note 5</i>) | 6/6 | 3/3 | 3/3 | 2/2 | 1/1 |
| Mr. Ruan Lianfa | 6/6 | 3/3 | 3/3 | 2/2 | 1/1 |
| Mr. Wong Chi Wai (<i>Note 6</i>) | 6/6 | 3/3 | 3/3 | 2/2 | 1/1 |

Notes:

1. Chairman of the Company
2. Mr. Chen Baoyuan was appointed as Director on 1 August 2015
3. Mr. Han Jianhua resigned as Director on 1 August 2015
4. Ms. Wang Jinfei was appointed as Director on 1 August 2015
5. Chairlady of the Nomination Committee
6. Chairman of the Audit Committee and the Remuneration Committee

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.

Corporate Governance Report

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 2015. 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 2015, the fee payable to PricewaterhouseCoopers in respect of its statutory audit services provided to the Company was RMB1.4 million (2014: RMB1.4 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 2015. 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, during the Reporting Period, 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.

Corporate Governance Report

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.ludao.cn) respectively immediately after the relevant general meetings.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yu Yuerong (虞岳榮), aged 48, 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. Chen Baoyuan (陳寶元), aged 43, was appointed as an executive Director of the Company on 1 August 2015. Mr. Chen joined the Group in November 2014 and is currently the chief financial officer of the Group. He is primarily responsible for overseeing the financial and accounting operations of the Group and supervising the internal control of the Group. Mr. Chen is a Certified Tax Agent in the PRC and has 19 years' experience in finance and accounting. Prior to joining the Group, he acted as the financial supervisor of the group financial center, the financial manager and the deputy financial officer in a subsidiary of GOME Electrical Appliances, a company listed on the Stock Exchange (stock code: 0493) successively. He also served as a financial manager and chief financial officer for several private companies. Mr. Chen graduated from Nanjing Dynamic College* (南京動力高等專科學校) in July 1995, majoring in computerized accounting and then graduated from Flinders University of South Australia with a Master of Arts (International Relations in Economy and Trade) in October 2012.

Ms. Pan Yili (潘伊莉), aged 40, 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.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS *(Continued)*

Ms. Wang Jinfei (王金飛), aged 44, was appointed as an executive Director of the Company on 1 August 2015. Ms. Wang is the spouse of Mr. Yu Yuerong, the chairman and an executive Director of the Group. Ms. Wang joined the Group in 2003 and was the marketing manager of the Group who was responsible for the expansion of the Group's OBM business. She is currently the administrative manager of the Group and is responsible for the daily administrative operation of the Group in Hong Kong since January 2014. Prior to joining the Group, Ms. Wang worked as the general manager of Taizhou Yizhou industrial Co., Ltd* (台州一洲工業公司) from June 1992 to February 1998 and the general manager of domestic marketing of Zhejiang Huangyan Yizhou Group Co., Ltd* (浙江黃岩一洲集團有限公司) from March 1998 to February 2003 respectively, both companies are engaged in the production of daily-use chemical products. Ms. Wang graduated from Zhejiang Shengzhou Changle Middle School* (浙江省嵊州市長樂中學) in June 1988.

Mr. Wang Xiaobing (王小兵), aged 41, 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 53, 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 62, 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).

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Wong Chi Wai (黃馳維), aged 49, 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 a certified public accountants firm and an advisor of a law firm. Mr. Wong is an independent non-executive director of Bonjour Holdings Limited, C&D International Investment Group Limited, Kin Yat Holdings Limited and Arts Optical International Holdings 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 54, 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 8 years of experience in company secretarial administration and accounting, and is currently a director of Orion CPA Limited, 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. Wang Yongfei (王永飛), aged 40, 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.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

The Board is pleased to release this environmental, social and governance report pursuant to the Environmental, Social and Governance Reporting Guide provided in Appendix 27 to the Listing Rules, which sets out the Company's policies and practices in four aspects, namely the workplace quality, environmental protection, working environment and community involvement for the Reporting Period. This report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the corporate governance and culture of the Company.

The Company is aware of the importance of having a reciprocal relationship with the society. The Board and management of the company are committed to establishing good standards in environmental, social and corporate governance practices. Apart from pursuing corporate profits, the Group also took into consideration the sustainable development of the environment, the society and corporate governance in all aspect of the business operation of the Group, so that those standards could be sustained.

Currently, Environmental, Social and Governance ("ESG") Committee is chaired by the Board. The Board will continue to formulate guidelines and spearhead initiatives that can be implemented in the whole group.

WORKPLACE QUALITY

Staff

The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide good working conditions, a safe and healthy workplace where employees are engaged and can do well in whatever they do. Those policies and procedures not only ensures the Group's compliance of the relevant labor laws and regulations in places where it operates, it also sets out the Group's standard of staff recruitment, promotion guidelines, remuneration scale, work hours, rest breaks, holidays as well as termination of employment and compensation matters and for prevention of child labor or forced labor. Labor contracts or employment agreements are entered into between the Group and the employees, which clearly states relevant details in order to safeguard mutual interest and benefits. There are staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication. Specific form of communication can also be made subject to the communication content and characteristics of participants. The Group formulates human resources plan in accordance with its development plan and strategic goals and review regularly. Apart from making external recruitment plan for continuous injection of fresh blood to the Company, the Group forms internal staff training and talent reserve plan, establishes all-level position selection and evaluation system to optimize human resources allocation and internal promotion and nurtures prospective employees to be future leaders in their respective areas.

Environmental, Social and Governance Report

WORKPLACE QUALITY *(Continued)*

Working environment

The Group is committed to providing a safe working environment for all of the staff. The Group are subject to the relevant PRC laws and regulations regarding production safety, including the principle law governing the administration of production safety in the PRC, namely the PRC Production Safety Law (中華人民共和國安全生產法) which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the process of production, the Group has adopted various measures such as the provision of periodic self-rescue training courses and hazard drills to employees, installation of first-aid equipment in the production sites and provision of protective equipment.

Employee training and development

In order to enable staff to keep abreast of the aerosol industry and maintain high-quality organization structure, the Company offers various training programs, and earmarks funds for staff training each year. In addition, the Group has established a comprehensive training system and mechanism to provide on-job teaching and training for its employees with a view to enhancing skills and management capabilities of the staff to offer smooth promotion channels. Based on analysis of the development needs of the Company, the management through various methods such as internal aptitude tests, on-job training and examinations and seniors' recommendations, always keeps ongoing selection of outstanding candidates for priority training. During the year of 2015, the Group provided over 7,000 hours of internal and external training to its employees.

Labour standards

All of the employees of the Group were treated equally. Their employment, remuneration and promotion consideration will be not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

The majority of the employees of the Group were located in the PRC. The Company strictly complies with the requirements of The Labour Law and The Labour Contract Law of the PRC without violating the relevant rules and regulations including the workers' wages, overtime payments and related benefits are made with reference to the local minimum wage, and holidays and statutory paid leaves are in compliant with the requirements in the PRC.

Environmental, Social and Governance Report

WORKPLACE QUALITY *(Continued)*

Environmental Policy

The Company pledges to uphold quality management and implement policies for conserving resources and managing waste. The Company has established the following policies in compliance with environmental regulations:

1. The Company implemented internal procedures to prevent and manage pollution (ISO 14001).
2. The Company commits to fulfil and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.

The Group conducts regular testing in relation to air, noise and waste water emitted or produced to ensure that our pollution levels are within the allowed levels as stipulated in the relevant PRC laws and regulations.

Anti-corruption

The Company is committed to prevent and monitor any malpractice or unethical actions. The Group has established stringent policies for anti-corruption and anti-fraud, which were communicated to the employees and providing them a whistle blowing channel for reporting any suspected inappropriate actions to the Board.

Community Involvement

The Company is committed to contribute to the society through involving in the development of the communities. The management and the employees of the Group participated in assisting and supporting the local communities.



Directors' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2015.

GROUP REORGANIZATION

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 reorganization 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 2015, there was no group reorganization.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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 1 to the audited consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Period. An analysis of the Group's performance for the Reporting Period by geographical segments is set out in note 5 to the audited consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the Reporting Period is set out in the section headed "Management Discussion and Analysis" on page 4 of this annual report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of comprehensive income on page 42.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2015.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years is set out on page 96 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 Monday, 9 May 2016 to Friday, 13 May 2016, 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 Friday, 13 May 2016, 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 Friday, 6 May 2016.

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 13 to the consolidated financial statements.

SHARE ISSUED DURING THE REPORTING PERIOD

Details of the shares of the Company issued during the Reporting Period are set out in note 19 to the audited consolidated financial statements.

SHARE CAPITAL

Details of movements in the Group and the Company's share capital during the Reporting Period are set out in note 19 and note 31 respectively 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 of this report.

Directors' Report

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB156.2 million (2014: RMB55.7 million). This includes the Company's Share premium account of approximately RMB149.9 million as at 31 December 2015 (2014: RMB67.9 million), 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.

MAJOR SUPPLIERS AND CUSTOMERS

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

| | 2015 % | 2014 % |
|-----------------------------------|-----------|-----------|
| Sales | | |
| – the largest customer | 26.8 | 16.9 |
| – five largest customers combined | 64.0 | 52.0 |
| Purchases | | |
| – the largest supplier | 31.2 | 36.2 |
| – five largest suppliers combined | 59.4 | 64.1 |

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 2015.

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. Chen Baoyuan (appointed on 1 August 2015)
Mr. Han Jianhua (resigned on 1 August 2015)
Ms. Pan Yili
Ms. Wang Jinfei (appointed on 1 August 2015)
Mr. Wang Xiaobing

Independent non-executive Directors

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

Pursuant to Article 112 of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed shall hold office only until the next general meeting of the Company (in the case of filling a casual vacancy) or until the next following AGM of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the next following AGM. Mr. Chen Baoyuan and Ms. Wang JinFei, who were appointed as additional directors by the Board effective 1 August 2015, shall retire from office and, being eligible, offer themselves for re-election at the forthcoming AGM to be held on 13 May 2016.

Pursuant to Article 108(a) of the Articles, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Yu Yuerong, Mr. Chen Baoyuan, Ms. Pan Yili, Ms. Wang Jinfei and Mr. Wang Xiaobing shall retire by rotation and, being eligible, offer themselves for re-election.



Directors' Report

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 (i) Mr. Wang Xiaobing, whose service contract was entered into on 16 May 2014; and (ii) Mr. Chen Baoyuan and Ms. Wang Jinfei whose service contracts are engaged with the Company on 1 August 2015) 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.

DIRECTORS' INTEREST IN COMPETING BUSINESS *(Continued)*

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 covenantor (together with his/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any 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 are required to bring to the attention to the public.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole and any part of the Company’s business were entered into or existed during the Reporting Period.

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.

Directors' Report

SHARE OPTION SCHEME

Pursuant to the share option scheme ("Share Option Scheme") adopted by the Company 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 adopting the Share Option Scheme 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.

Directors' Report

SHARE OPTION SCHEME (Continued)

The outstanding share options granted as disclosed in the announcement of the Company dated 29 June 2015 entitled the relevant grantees to subscribe for an aggregate 40,000,000 new shares of HK\$0.01 each in the share capital of the Company. Detail of the movements in the options granted under the Scheme for the Reporting Period is as follows:

| Name of grantees | Outstanding as at 1 January 2015 | Number of share options | | | Outstanding as at 31 December 2015 | Date of grant of the share options | Exercise period of the share options | Price of the shares on the date of grant per share (Note) | Exercise price of the share options per share |
|--|---|---------------------------------|---|-----------------------------------|---|--|---|--|---|
| | | Granted during the period | Forfeited/ Cancelled during the period | Exercised during the period | | | | | |
| Directors | | | | | | | | | |
| Chen Baoyuan (appointed on 1 August 2015) | - | 4,000,000 | - | - | 4,000,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Pan Yili | - | 3,000,000 | - | - | 3,000,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Wang Jinfei (appointed on 1 August 2015) | - | 3,500,000 | - | - | 3,500,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Wang Xiaobing | - | 4,000,000 | - | - | 4,000,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Sub-total | - | 14,500,000 | - | - | 14,500,000 | | | | |
| Senior Management | | | | | | | | | |
| Wang Yongfei | - | 4,000,000 | - | - | 4,000,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Sub-total | - | 4,000,000 | - | - | 4,000,000 | | | | |
| Others | | | | | | | | | |
| Employees | - | 14,000,000 | - | - | 14,000,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Supplier | - | 3,500,000 | - | - | 3,500,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Other eligible participant | - | 4,000,000 | - | - | 4,000,000 | 29/6/2015 | 29/6/2015 – 28/6/2017 | 2.24 | 2.26 |
| Sub-total | - | 21,500,000 | - | - | 21,500,000 | | | | |
| Total | - | 40,000,000 | - | - | 40,000,000 | | | | |

Note: The price of the shares of the Company on the date of the grant of the share options is the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day on the date on which the share options were granted.

As at 31 December 2015 to the date of this report, the Company does not have any share options outstanding for issue under the Share Option Scheme.

Directors' Report

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

As at 31 December 2015, 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:

Long position in shares and underlying shares of the Company

| Name of Directors | Number of Ordinary Shares | | Interests in underlying shares | | Approximate percentage of interests in the Company (Note 2) |
|--------------------------------------|---------------------------|---------------------------------------|--------------------------------|-------------|--|
| | Interest of spouse | Interests of a controlled corporation | Share options (Note 1) | Total | |
| Mr. Yu | - | 212,000,000 (Note 3) | 3,500,000 (Note 4) | 215,500,000 | 44.90% |
| Ms. Wang Jinfei ("Mrs. Yu") (Note 5) | 212,000,000 (Note 3) | - | 3,500,000 | 215,500,000 | 44.90% |
| Chen Baoyuan (Note 5) | - | - | 4,000,000 | 4,000,000 | 0.83% |
| Ms. Pan Yili | - | - | 3,500,000 | 3,500,000 | 0.73% |
| Mr. Wang Xiaobing | - | - | 4,000,000 | 4,000,000 | 0.83% |

Notes:

- (1) These represent the share options granted to the Directors under the Share Option Scheme. Details of the Share Option Scheme have been disclosed in the above section headed "Share Option Scheme".
- (2) These percentages have been compiled based on the total number of issued shares (i.e. 480,000,000 shares) as at 31 December 2015.
- (3) These shares are held by Ludao investments, which is wholly and beneficially owned by Mr. Yu. As Mrs. Yu is the spouse of Mr. Yu, Mrs. Yu is deemed to be interested in all the shares held by Mr. Yu (through Ludao Investments) by virtue of the SFO.
- (4) These represent 3,500,000 share options granted to Mrs. Yu under the Share Option Scheme. Mr. Yu is the spouse of Mrs. Yu and is therefore deemed to be interested held by Mr. Yu by virtue of the SFO.
- (5) Mr. Chen Baoyuan and Mrs. Yu were appointed as Director on 1 August 2015.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the following persons or corporations (other than 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 shareholders | Capacity/Nature of interests | Total number of ordinary shares and underlying shares (Note 1) | Approximate percentage of interests in the Company (Note 2) |
|----------------------------|---------------------------------------|--|---|
| Mr. Yu | Interests of spouse | 3,500,000 | 44.90% |
| | Interests of a controlled corporation | 212,000,000 | |
| Ludao Investments (Note 3) | Beneficial owner | 212,000,000 | 44.17% |
| Mrs. Yu (Note 3) | Interest of spouse | 212,000,000 | 44.90% |
| | Beneficial owner | 3,500,000 | |

Notes:

- (1) All the interests represent long positions.
- (2) These percentages have been compiled based on the total number of issued shares (i.e. 480,000,000 shares) as at 31 December 2015.
- (3) Ludao Investments is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Yu, the chairman of the Company and an executive Director. Mrs. Yu is the spouse of Mr. Yu and is therefore deemed to be interested in all the Shares held by Mr. Yu (through Ludao Investments) by virtue of the SFO.

Directors' Report

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in paragraph headed "Share Option Scheme" 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

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

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.

DIRECTORS' SECURITIES TRANSACTIONS

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 complied with the required standard set out in the Model Code throughout the Reporting Period.



Directors' Report

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 21, which provide further information on the Company's corporate governance practices.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 31 December 2015 till the date of this report.

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 2015.

AUDITOR

The consolidated financial statements for the year ended 31 December 2015 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, 23 March 2016

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 set out on pages 42 to 95, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then 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 Companies 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.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*



Independent Auditor's Report

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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2016

Consolidated Statement of Comprehensive Income

| | Note | Year ended 31 December | |
|--|------|------------------------|-----------------|
| | | 2015 RMB'000 | 2014 RMB'000 |
| Revenue | 6 | 266,010 | 253,795 |
| Cost of sales | 7 | (200,275) | (189,094) |
| Gross profit | | 65,735 | 64,701 |
| Other income | 6 | 1,713 | 3,939 |
| Other gain | 6 | 3,496 | (54) |
| Selling expenses | 7 | (18,543) | (16,109) |
| Administrative expenses | 7 | (46,391) | (27,568) |
| Operating profit | | 6,010 | 24,909 |
| Finance income | 9 | 2,930 | 467 |
| Finance costs | 9 | (1,124) | (1,214) |
| Finance income – net | | 1,806 | (747) |
| Profit before income tax | | 7,816 | 24,162 |
| Income tax expense | 10 | (4,249) | (3,654) |
| Profit for the year | | 3,567 | 20,508 |
| Other comprehensive income | | | |
| Items that may be reclassified to profit or loss: | | | |
| Currency translation differences | | 2,154 | (70) |
| Total comprehensive income for the year attributable to the owners of the Company | | 5,721 | 20,438 |
| Earnings per share for profit attributable to owners of the Company | | | |
| – basic and diluted (RMB per share) | 11 | 0.01 | 0.05 |

The notes on pages 47 to 95 are an integral part of these financial statements.

Consolidated Balance Sheet

| | | Group As at 31 December | |
|---|------|----------------------------|-----------------|
| | Note | 2015 RMB'000 | 2014 RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Land use rights | 12 | 4,999 | 5,115 |
| Property, plant and equipment | 13 | 85,836 | 70,284 |
| Intangible assets | 14 | 539 | 729 |
| Deferred income tax assets | 25 | 394 | 416 |
| Prepayment for property, plant and equipment | | 5,345 | 6,063 |
| | | 97,113 | 82,607 |
| Current assets | | | |
| Inventories | 15 | 35,037 | 33,762 |
| Trade and other receivables | 16 | 140,941 | 187,349 |
| Cash and cash equivalents | 17 | 120,819 | 26,821 |
| Pledged bank deposits | 18 | 18,711 | 11,982 |
| | | 315,508 | 259,914 |
| Total assets | | 412,621 | 342,521 |
| EQUITY | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 19 | 3,801 | 3,170 |
| Share premium | 19 | 134,143 | 52,153 |
| Other reserves | 20 | 75,235 | 50,693 |
| Retained earnings | | 98,932 | 96,825 |
| Total equity | | 312,111 | 202,841 |

Consolidated Balance Sheet

| | Note | Group As at 31 December | |
|-------------------------------------|------|----------------------------|-----------------|
| | | 2015 RMB'000 | 2014 RMB'000 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred government grants | 22 | 1,155 | 1,300 |
| Current liabilities | | | |
| Trade and other payables | 23 | 98,750 | 107,706 |
| Current income tax liabilities | | 605 | 1,674 |
| Borrowings | 24 | - | 29,000 |
| | | 99,355 | 138,380 |
| Total liabilities | | 100,510 | 139,680 |
| Total equity and liabilities | | 412,621 | 342,521 |

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 42 to 95 were approved by the Board of Directors on 23 March 2016 and were signed on its behalf.

Yu Yue Rong
Director

Chen Bao Yuan
Director

Consolidated Statement of Changes in Equity

| | Share capital RMB'000 Note (19) | Share premium RMB'000 Note (19) | Other reserves RMB'000 Note (20) | 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 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 |
| Balance at 1 January 2015 | 3,170 | 52,153 | 50,693 | 96,825 | 202,841 |
| Comprehensive income | | | | | |
| Profit for the year | - | - | - | 3,567 | 3,567 |
| Currency translation differences | - | - | 2,154 | - | 2,154 |
| Total comprehensive income | - | - | 2,154 | 3,567 | 5,721 |
| Transaction with owners | | | | | |
| Share option scheme (Note 21) | | | | | |
| - Value of employee services | - | - | 17,022 | - | 17,022 |
| - Value of other services | - | - | 3,906 | - | 3,906 |
| Share placing (Note 19(a)) | 631 | 81,990 | - | - | 82,621 |
| Profit appropriation | - | - | 1,460 | (1,460) | - |
| Balance at 31 December 2015 | 3,801 | 134,143 | 75,235 | 98,932 | 312,111 |

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

| | Note | Year ended 31 December | |
|---|-------|------------------------|-----------------|
| | | 2015 RMB'000 | 2014 RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from/(used in) operations | 28(a) | 73,031 | (22,904) |
| Interest paid | | (1,124) | (1,214) |
| Income tax paid | | (5,297) | (4,417) |
| Net cash generated from/(used in) operating activities | | 66,610 | (28,535) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (17,578) | (20,569) |
| Prepayment for property, plant and equipment | | (2,144) | (32) |
| Purchase of land use rights | | - | (3,285) |
| Purchase of intangible assets | | (5) | (22) |
| (Increase)/decrease of pledged bank deposits | | (6,729) | 6,515 |
| Interest received | | 589 | 467 |
| Net cash used in investing activities | | (25,867) | (16,926) |
| Cash flows from financing activities | | | |
| Issue of shares – Net of issue cost | | 82,621 | - |
| Proceeds from bank borrowings | | 11,138 | 42,000 |
| Repayments of bank borrowings | | (40,138) | (23,000) |
| Proceeds from notes payable | | 125,699 | 100,250 |
| Repayments of notes payable | | (126,968) | (101,270) |
| Net cash generated from financing activities | | 52,352 | 17,980 |
| Net increase/(decrease) in cash and cash equivalents | | | |
| | | 93,095 | (27,481) |
| Cash and cash equivalents at beginning of the year | 17 | 26,821 | 54,291 |
| Currency translation differences | | 903 | 11 |
| Cash and cash equivalents at end of the year | 17 | 120,819 | 26,821 |

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

Notes to the 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, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and sale of aerosol products for household and auto care, air fresheners, personal care and insecticides. 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 44.17% 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 in the People’s Republic of China (the “PRC”).

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 23 March 2016.

Notes to the Consolidated Financial Statements

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.

2.1.1 Change in accounting policy and disclosure

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.

(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 2015:

Amendment to IAS/HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to IFRSs/HKFRSs – 2010 – 2012 Cycle, on IFRS/HKFRS 8, ‘Operating segments’, IAS/HKAS 16, ‘Property, plant and equipment’ and IAS/HKAS 38, ‘Intangible assets’ and IAS/HKAS 24, ‘Related party disclosures’.

Amendments from annual improvements to IFRSs/HKFRSs – 2011 – 2013 Cycle, on IFRS/HKFRS 3, ‘Business combinations’, IFRS/HKFRS 13, ‘Fair value measurement’ and IAS/HKAS 40, ‘Investment property’.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the impact of the remaining amendments are not material to the Group.

Notes to the Consolidated Financial Statements

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 14 | Regulatory deferral accounts | 1 January 2016 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| HKFRS 7 | Financial instruments: Disclosures | 1 January 2016 |
| HKFRS 10, HKFRS 12 and HKAS 28 (amendments) | Investment entities: Applying the consolidation exception | 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 |
| HKFRS 9 | Financial instruments | 1 January 2018 |
| HKFRS 11 | Accounting for acquisitions of interests in joint operation | 1 January 2016 |
| HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation | 1 January 2016 |
| HKAS 16 and HKAS 41 | Agriculture: bearer plants | 1 January 2016 |
| HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2016 |
| HKAS 27 | Equity method in separate financial statements | 1 January 2016 |
| HKAS 1 | Disclosure initiative | 1 January 2016 |

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.

Notes to the Consolidated Financial Statements

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 during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

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.

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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

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 to the former owners of the acquiree 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.

2.2.3 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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;

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies (Continued)

- (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.

2.6 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

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)' in the consolidated statement of comprehensive income.

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 expenditure 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;

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Research and development expenditure *(Continued)*

- 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.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

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.

2.12 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 of the business 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Government grants *(Continued)*

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.

(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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(b) Deferred income tax (Continued)

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.

2.20 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Share based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees and non-employees as consideration for equity instruments (options) of the group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. For employee service, the total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

For share options granted to non-employees, the options issued in exchange for services are measured at the fair values of the services received, unless that services cannot be identified and/or fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses with a corresponding increase in equity (share options reserve) when the counterparties render services or over the period when the nonemployees render services, unless the services qualify for recognition as assets.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Share based payments *(Continued)*

(a) Equity-settled share-based payment transactions (Continued)

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) Share-based payment transactions among group entities

The grant by the company of options over its equity instruments to the non-employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.22 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.

Notes to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Revenue recognition *(Continued)*

(b) Technical service fee

Technical service fee is recognised in the period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 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 charged to 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 and the remittance of funds are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

Major foreign currencies of Group are HKD and United States 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 | |
|--------------------|-------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Assets | | |
| HKD and USD | 91,718 | 44,407 |
| Liabilities | | |
| HKD and USD | 3,771 | 3,559 |

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 | |
|--|------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| 5% appreciation in exchange rate against HKD and USD | | |
| Decrease in the profit for the year | 4,397 | 1,736 |

Notes to the Consolidated Financial Statements

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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.

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 2015, the Group had certain concentration of credit risk as approximately 76% (2014: 55%) 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.

Notes to the Consolidated Financial Statements

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 2015 | | |
| Trade and other payables (excluding other taxes payable, payroll payable, advances from customers and etc.) | 59,284 | 24,391 |
| 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 |

(e) Cash flow and fair value interest rate risk

The Group's exposures to changes in interest rates are mainly attributable to its pledged 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 2015 and 2014, 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.

Notes to the Consolidated Financial Statements

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 | |
|---------------|-------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Borrowings | - | 29,000 |
| Notes payable | 58,590 | 59,859 |
| | 58,590 | 88,859 |
| Total equity | 312,111 | 202,841 |
| Gearing ratio | 19% | 44% |

The decrease in gearing ratio as at 31 December 2015 resulted primarily from the additions of equity and the reductions of borrowings during the year.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including pledged bank deposits, 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.

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

(b) Recognition of share based payment expenses

The fair value of share options granted are measured on the respective grant dates based on the fair value of the underlying shares of the services received. The Group used its judgement to select a valuation method and made assumptions that are based on market conditions at the grant date. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share, which may in turn significantly impact the determination of the share based payment expenses. (Note 21)

Notes to the Consolidated Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) 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.

(d) 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 related products. The Group sells its products on contract manufacturing service (“CMS”) basis to overseas market and on original brand manufacturing (“OBM”) basis in the PRC market. All products are manufactured under the same production lines and distributed through distributors network. EDs review and assess performance of the Group on a combined basis and management concluded that there is only one reportable operating segment.

Notes to the Consolidated Financial Statements

5 SEGMENT INFORMATION (Continued)

Geographical information

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

Revenue and turnover from customers

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--------------------------|------------------------|------------------------|
| Mainland China | 74,661 | 121,154 |
| United States of America | 122,759 | 67,858 |
| Europe | 18,497 | 20,826 |
| Others | 50,093 | 43,957 |
| | 266,010 | 253,795 |

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 2015 and 2014.

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:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|------------|------------------------|------------------------|
| Customer A | 71,208 | 28,225 |
| Customer B | 31,546 | 40,519 |
| Customer C | 29,207 | 42,925 |
| Customer D | 20,703 | 8,451 |
| Customer E | 17,655 | 11,873 |
| | 170,319 | 131,993 |

Notes to the Consolidated Financial Statements

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:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--------------------------------|------------------------|------------------------|
| Revenue | | |
| Sales of goods | 266,010 | 253,795 |
| Other income | | |
| Government grants | 475 | 2,493 |
| Technical service fee | 1,075 | 591 |
| Others | 163 | 855 |
| Other gain/(loss) – net | 1,713 | 3,939 |
| Foreign exchange gain/(loss) | 2,650 | (141) |
| Others | 846 | 87 |
| | 3,496 | (54) |

Notes to the Consolidated Financial Statements

7 EXPENSES BY NATURE

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

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Depreciation and amortisation (<i>Note 12, 13, 14</i>) | 5,386 | 4,579 |
| Employee benefit expenses, excluding amount included in share option expense and research and development costs (<i>Note 8</i>) | 19,913 | 20,568 |
| Share option expense (<i>Note 21</i>) | 20,928 | – |
| Raw materials used | 187,419 | 180,489 |
| Changes in inventories of finished goods and work in progress | (2,020) | (2,310) |
| Water and electricity expenditures | 2,601 | 2,516 |
| Transportation and travelling expenses | 9,752 | 9,432 |
| Telecommunication expenses | 487 | 557 |
| Advertising costs | 1,155 | 1,368 |
| Other tax expenses | 1,907 | 1,421 |
| Research and development costs | | |
| – Employee benefit expenses (<i>Note 8</i>) | 4,172 | 4,137 |
| – Materials and others, excluding depreciation and amortisation | 3,620 | 2,999 |
| Auditor's remuneration | | |
| – Audit services | 1,579 | 1,440 |
| Entertainment expenses | 512 | 546 |
| Operating lease expenses | 661 | 1,134 |
| Professional services fees | 1,680 | 1,635 |
| Other expenses | 5,457 | 2,260 |
| Total | 265,209 | 232,771 |

Notes to the Consolidated Financial Statements

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Wages, allowance and bonus | 21,785 | 21,872 |
| Retirement scheme contribution | 1,237 | 1,093 |
| Share options granted to directors and employees <i>(Note 21)</i> | 17,022 | – |
| Others | 1,063 | 1,740 |
| | 41,107 | 24,705 |

Ludao PRC makes defined contribution to retirement schemes managed by local governments in the PRC based on 22% of the basic salary of eligible staff during the year ended 31 December 2015 (2014: 22%). It is the local governments' responsibility to pay the retirement pension to the staffs who retire.

9 FINANCE INCOME – NET

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|---------------------------------------|------------------------|------------------------|
| Foreign exchange gain | 2,341 | – |
| Interest income | 589 | 467 |
| Interest expense from bank borrowings | (1,124) | (1,214) |
| Finance income – net | 1,806 | (747) |

Notes to the Consolidated Financial Statements

10 INCOME TAX EXPENSE

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Current income tax | 4,227 | 3,827 |
| Deferred income tax (<i>Note 25</i>) | 22 | (173) |
| | 4,249 | 3,654 |

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 (2014: 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 qualification of High and New Technology Enterprise of Ludao PRC has been due on 31 December 2015 and the company is in the process of applying of such qualification at present.

Notes to the Consolidated Financial Statements

10 INCOME TAX EXPENSE (Continued)

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:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|-----------------|-----------------|
| Profit before income tax | 7,816 | 24,162 |
| Tax calculated at the tax rate of 15% (2014: 15%) | 1,172 | 3,624 |
| Additional research and development deductible expenses | (638) | (606) |
| Expenses not deductible for tax purposes | 3,715 | 636 |
| | 4,249 | 3,654 |

11 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.

| | 2015 | 2014 |
|---|---------|---------|
| Profit attributable to owners of the Company (RMB'000) | 3,567 | 20,508 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 452,000 | 400,000 |
| Basic earnings per share (RMB per share) (a) | 0.01 | 0.05 |

- (a) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market share price of the Company's shares) for the same amount of proceeds are share issues for no consideration which causes dilution to earnings per share. During the year, the outstanding share options are anti-dilutive. Therefore, the diluted earnings per share of the Company equals the basic earnings per share.

Notes to the Consolidated Financial Statements

12 LAND USE RIGHTS

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--------------------------------|------------------------|------------------------|
| Opening net book amount | 5,115 | 1,934 |
| Additions | - | 3,285 |
| Amortisation (<i>Note 7</i>) | (116) | (104) |
| Closing net book amount | 4,999 | 5,115 |

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--------------------------|------------------------|------------------------|
| Cost | 5,776 | 5,776 |
| Accumulated amortisation | (777) | (661) |
| Net book amount | 4,999 | 5,115 |

The lease periods of land use rights are 50 years. As at 31 December 2015, the remaining lease periods of the Group's land use rights were 37 to 48 years (2014: 38 to 49 years).

As at 31 December 2015, the Group's land use rights were pledged to secure notes payable (2014: Notes payable and borrowings) (Note 23(b) and 24).

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office furniture and equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|-----------------------------|----------------------|-----------------------------------|---|------------------------------|--|------------------|
| At 1 January 2014 | | | | | | |
| 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 |
| Year ended 31 December 2015 | | | | | | |
| Opening net book amount | 32,177 | 17,418 | 6,207 | 2,162 | 12,320 | 70,284 |
| Additions | 356 | 3,581 | 578 | 1,333 | 14,828 | 20,676 |
| Disposal | – | – | (49) | – | – | (49) |
| Transfer | 1,232 | 3,099 | – | – | (4,331) | – |
| Depreciation (Note 7) | (1,661) | (1,960) | (1,022) | (432) | – | (5,075) |
| Closing net book amount | 32,104 | 22,138 | 5,714 | 3,063 | 22,817 | 85,836 |
| At 31 December 2015 | | | | | | |
| Cost | 41,876 | 34,397 | 8,895 | 5,412 | 22,817 | 113,397 |
| Accumulated depreciation | (9,772) | (12,259) | (3,181) | (2,349) | – | (27,561) |
| Net book amount | 32,104 | 22,138 | 5,714 | 3,063 | 22,817 | 85,836 |

Notes to the Consolidated Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation expenses have been charged in:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|-------------------------|------------------------|------------------------|
| Cost of sales | 1,426 | 1,452 |
| Administrative expenses | 3,625 | 2,834 |
| Selling expenses | 24 | – |
| Total | 5,075 | 4,286 |

As at 31 December 2015, the Group's buildings with the carrying amount of RMB13,134,000 (2014: RMB13,566,000) were pledged to secure notes payable (2014: Notes payable and borrowings)(Note 23(b) and 24).

Notes to the Consolidated Financial Statements

14 INTANGIBLE ASSETS

| | Computer Software <i>RMB'000</i> | Patents <i>RMB'000</i> | Total <i>RMB'000</i> |
|---------------------------------------|--|---------------------------|-------------------------|
| At 1 January 2014 | | | |
| 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 (<i>Note 7</i>) | (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 |
| Year ended 31 December 2015 | | | |
| Opening net book amount | 254 | 475 | 729 |
| Additions | 5 | – | 5 |
| Amortisation charge (<i>Note 7</i>) | (45) | (150) | (195) |
| Closing net book amount | 214 | 325 | 539 |
| At 31 December 2015 | | | |
| Cost | 399 | 750 | 1,149 |
| Accumulated amortisation | (185) | (425) | (610) |
| Net book amount | 214 | 325 | 539 |

Amortisation had been charged in administrative expenses.

Notes to the Consolidated Financial Statements

15 INVENTORIES

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|-------------------|------------------------|------------------------|
| Raw materials | 15,077 | 16,320 |
| Work in progress | 2,924 | 2,046 |
| Finished goods | 17,036 | 15,396 |
| Inventories – Net | 35,037 | 33,762 |

The cost of inventories included in cost of sales during the year ended 31 December 2015 amounted to RMB185,399,000 (2014: RMB178,179,000).

During the year, the Group did not make or reverse any provision for inventories (2014: Nil).

16 TRADE AND OTHER RECEIVABLES

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|----------------------------|------------------------|------------------------|
| Trade receivables, net (a) | 92,688 | 135,502 |
| Prepayments and deposits | 42,274 | 48,262 |
| Other receivables | 5,629 | 3,585 |
| Notes receivable | 350 | – |
| | 140,941 | 187,349 |

Notes to the Consolidated Financial Statements

16 TRADE AND OTHER RECEIVABLES (Continued)

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

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|-----|------------------------|------------------------|
| RMB | 77,828 | 146,387 |
| USD | 63,039 | 40,860 |
| HKD | 74 | 102 |
| | 140,941 | 187,349 |

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

(a) Trade receivables

The credit period granted to customers is generally between 0 to 180 days. The ageing analysis of the trade receivables from the date of sales is as follows:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|----------------------|------------------------|------------------------|
| Up to 3 months | 65,401 | 80,201 |
| 3 to 6 months | 23,400 | 36,321 |
| 6 to 12 months | 3,855 | 18,026 |
| Over 12 months | 263 | 954 |
| | 92,919 | 135,502 |
| Impairment provision | (231) | – |
| | 92,688 | 135,502 |

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 64% (2014: 52%) of the Group's revenue for the year. They accounted for approximately 76% (2014: 55%) of the gross trade receivable balances as at 31 December 2015.

Notes to the Consolidated Financial Statements

16 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

As at 31 December 2015, trade receivables of RMB3,887,880 (2014: RMB18,996,000) were past due but not considered impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables is as follows:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|----------------|------------------------|------------------------|
| 3 to 6 months | – | 16 |
| 6 to 12 months | 3,856 | 18,026 |
| Over 12 months | 32 | 954 |
| | 3,888 | 18,996 |

As of 31 December 2015, trade receivables of RMB231,000 (2014: nil) were impaired and fully provided for. The individually impaired receivables mainly relate to wholesalers, which were no longer dealing with the Company for more than 2 years. It was assessed that all of the receivables would not be recovered. The ageing of these receivables is over 2 years.

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.

Notes to the Consolidated Financial Statements

17 CASH AND CASH EQUIVALENTS

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|---------------------------|------------------------|------------------------|
| Cash at banks and in hand | 120,819 | 26,821 |

Cash and cash equivalents are denominated in the following currencies:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|-----|------------------------|------------------------|
| RMB | 92,214 | 23,376 |
| HKD | 25,836 | 2,525 |
| USD | 2,769 | 920 |
| | 120,819 | 26,821 |

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 with banks in the PRC and Hong Kong.

18 PLEDGED BANK DEPOSITS

Pledged bank deposits represented bank deposits of the Group which were placed as guarantee deposits for issuing notes payable (Note 23(b)).

As at 31 December 2015, the effective interest rate on pledged bank deposits was 2.52% (2014: 2.80%) per annum. All pledged bank deposits were denominated in RMB and kept in bank accounts with banks in the PRC.

Notes to the Consolidated Financial Statements

19 SHARE CAPITAL AND SHARE PREMIUM

31 December 2015 and 2014

| | 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 <i>Number of ordinary shares (of HKD0.01 each)</i> | <i>RMB'000</i> | Share premium <i>RMB'000</i> |
|--|--|----------------|---------------------------------|
| At 31 December 2014 and 1 January 2015 | 400,000,000 | 3,170 | 52,153 |
| Share placing (a) | 80,000,000 | 631 | 83,255 |
| Share issue cost | – | – | (1,265) |
| At 31 December 2015 | 480,000,000 | 3,801 | 134,143 |

- a) On 11 May 2015, the Company placed 80,000,000 ordinary shares of HK\$0.01 each to independent third parties at a price of HK\$1.33 per share. The net proceeds received were approximately HK\$104.6 million (equivalent to approximately RMB82.0 million) after deducting issue cost of RMB1,265,000.
- b) All shares issued rank pari passu against each other.

Notes to the Consolidated Financial Statements

20 OTHER RESERVES

| | Capital reserve RMB'000 | Merger reserve RMB'000 | Statutory reserves RMB'000 | Exchange reserves RMB'000 | Share option reserves RMB'000 | Total RMB'000 |
|---|-------------------------------|------------------------------|----------------------------------|---------------------------------|--|------------------|
| At 1 January 2014 | 8,986 | 28,029 | 11,595 | (131) | – | 48,479 |
| Profit appropriation (a) | – | – | 2,284 | – | – | 2,284 |
| Currency translation differences | – | – | – | (70) | – | (70) |
| At 31 December 2014 and 1 January 2015 | 8,986 | 28,029 | 13,879 | (201) | – | 50,693 |
| Profit appropriation (a) | – | – | 1,460 | – | – | 1,460 |
| Share options scheme | | | | | | |
| – Value of employee services (Note 21) | – | – | – | – | 17,022 | 17,022 |
| – Value of other services (Note 21) | – | – | – | – | 3,906 | 3,906 |
| Currency translation differences | – | – | – | 2,154 | – | 2,154 |
| At 31 December 2015 | 8,986 | 28,029 | 15,339 | 1,953 | 20,928 | 75,235 |

- (a) 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 reaches 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.

21 SHARE BASED PAYMENTS

(a) Share options

On 29 June 2015, the Company granted share options to certain directors, employees and eligible participants to subscribe for a total of 40,000,000 ordinary shares of the Company under the share option scheme adopted by the Company on 16 September 2013. The exercise price of the share options is HK\$2.26 per share and the validity period of the share options are two years.

The total fair value of the share options, which had been valued by an independent valuer using the binomial valuation model, had been determined to be approximately RMB20.9 million. All options are immediately vested in full and as such, a one off non-cash share based payment expense had been expensed during the year ended 31 December 2015. Share based payment expenses of RMB17,022,237 have been charged to administrative expenses, RMB2,083,212 to selling expense and RMB1,822,811 to cost of sales for the year ended 31 December 2015.

Movement in the numbers of share options outstanding:

Notes to the Consolidated Financial Statements

21 SHARE BASED PAYMENTS (Continued)

(b) Outstanding share options

| | Number of share options | |
|----------------|-------------------------|------|
| | 2015 | 2014 |
| At 1 January | – | – |
| Granted | 40,000,000 | – |
| Exercised | – | – |
| At 31 December | 40,000,000 | – |

The total of 40,000,000 outstanding options (2014: nil) were exercisable upon grant date.

(c) Fair value of share options

The directors of the Company used the binomial model to determine the fair value of the options granted. Significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, was used by the management of the Group in applying the binomial model, which are summarised below.

| | |
|---------------------|--------|
| Risk free rate | 0.34% |
| Dividend yield | 1.53% |
| Expected volatility | 57.64% |

22 DEFERRED GOVERNMENT GRANTS

| | 2015 RMB'000 | 2014 RMB'000 |
|--|-----------------|-----------------|
| At 1 January | 1,300 | – |
| Receipt of grants | – | 1,423 |
| Recognised to consolidated statement of comprehensive income | (145) | (123) |
| At 31 December | 1,155 | 1,300 |

As at 31 December 2015, the amount mainly represents various government grants received by Ludao PRC for subsidising its investments in fixed assets.

Notes to the Consolidated Financial Statements

23 TRADE AND OTHER PAYABLES

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|------------------------|------------------------|------------------------|
| Trade payables (a) | 23,044 | 26,918 |
| Notes payable (b) | 58,590 | 59,859 |
| Advance from customers | 7,364 | 7,051 |
| Other tax payables | 3,863 | 6,793 |
| Accrued expenses | 3,848 | 4,700 |
| Other payables | 2,041 | 2,385 |
| | 98,750 | 107,706 |

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

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|-----|------------------------|------------------------|
| RMB | 94,979 | 104,147 |
| HKD | 268 | 227 |
| USD | 3,503 | 3,332 |
| | 98,750 | 107,706 |

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:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|----------------|------------------------|------------------------|
| Up to 3 months | 18,400 | 15,712 |
| 3 to 6 months | 3,139 | 7,222 |
| 6 to 12 months | 497 | 1,633 |
| Over 12 months | 1,008 | 2,351 |
| | 23,044 | 26,918 |

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

Notes to the Consolidated Financial Statements

23 TRADE AND OTHER PAYABLES *(Continued)*

- (b) Notes payable represented bank acceptance notes with maturity dates within six months, and were secured by pledged bank deposits (Note 18), the land use rights (Note 12) and certain property, plant and equipment (Note 13) of the Group.

24 BORROWINGS

All borrowings have been repaid during the year.

25 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income 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. There are no offset amounts as at 31 December 2015 (2014: nil).

| | 2015 RMB'000 | 2014 RMB'000 |
|------------------------------------|-----------------|-----------------|
| Deferred tax assets: | | |
| – to be recovered within 12 months | 394 | 416 |

The movements in deferred tax assets are as follows:

| | Government grants payable RMB'000 | Accrued expenses RMB'000 | Total RMB'000 |
|--|--|--------------------------------|------------------|
| 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 |
| At 1 January 2015 | 196 | 220 | 416 |
| Charged to the consolidated statement of comprehensive income | (22) | – | (22) |
| At 31 December 2015 | 174 | 220 | 394 |

Notes to the Consolidated Financial Statements

25 DEFERRED INCOME TAX *(Continued)*

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 2015, the Group did not recognise deferred tax liabilities of RMB12,941,000, (2014: 11,627,000) on approximately RMB129,413,000 (2014: RMB116,274,000) 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.

26 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2015 (2014: nil).

27 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 RMB11,023,000 (2014: RMB2,320,000).

Notes to the Consolidated Financial Statements

28 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

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

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Profit before income tax | 7,816 | 24,162 |
| Adjustments for: | | |
| Interest income (<i>Note 9</i>) | (589) | (467) |
| Interest expense (<i>Note 9</i>) | 1,124 | 1,214 |
| Depreciation of property, plant and equipment (<i>Note 13</i>) | 5,075 | 4,286 |
| Amortisation of land use rights and intangible assets (<i>Note 12 and 14</i>) | 311 | 293 |
| Impairment charge for bad debt (<i>Note 16</i>) | 231 | – |
| Share option expenses (<i>Note 21</i>) | 20,928 | – |
| Changes in working capital: | | |
| Decrease/(Increase)in trade and other receivables | 47,431 | (55,302) |
| Increase in inventories | (1,275) | (3,433) |
| (Decrease)/Increase in trade and other payables | (8,021) | 6,343 |
| Cash generated from/(used in) operations | 73,031 | (22,904) |

(b) Non-cash transaction

The principal non-cash transaction is the share based payments discussed in Note 21.

29 CONTINGENT LIABILITIES

As at 31 December 2015, the Group and the Company had no significant contingent liabilities (2014: nil).

Notes to the Consolidated Financial Statements

30 COMMITMENTS

(a) Capital commitments

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

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|-------------------------------|------------------------|------------------------|
| Property, plant and equipment | 4,252 | 3,206 |

(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:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Not later than one year | 181 | 188 |
| Later than one year and not later than five years | 113 | 955 |
| | 294 | 1,143 |

Notes to the Consolidated Financial Statements

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

| | Note | Company As at 31 December | |
|---|------|------------------------------|-----------------|
| | | 2015 RMB'000 | 2014 RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Investments in subsidiaries | a | 27,626 | 13,573 |
| Current assets | | | |
| Trade and other receivables | | 112,039 | 48,908 |
| Cash and cash equivalents | | 25,793 | 1,496 |
| | | 137,832 | 50,404 |
| Total assets | | 165,458 | 63,977 |
| EQUITY | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | | 3,801 | 3,170 |
| Share premium | | 149,873 | 67,883 |
| Other reserves | b | 29,420 | (101) |
| Accumulated losses | | (23,056) | (12,033) |
| Total equity | | 160,038 | 58,919 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 5,420 | 5,058 |
| Total liabilities | | 5,420 | 5,058 |
| Total equity and liabilities | | 165,458 | 63,977 |

The balance sheet of the Company was approved by the Board of Directors on 23 March 2016 and was signed on its behalf.

Yu Yue Rong
Director

Chen Bao Yuan
Director

Notes to the Consolidated Financial Statements

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Investments in Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2015:

| Name | Place and date of incorporation/ establishment | Authorised/ registered capital | Paid up capital | Equity interest held | Principal activities and place of operation |
|-------------------------|---|--------------------------------|-----------------|----------------------|--|
| <i>Directly held:</i> | | | | | |
| Ludao BVI | Incorporated in British Virgin Island ("BVI") on 18 December 2007 | USD100 | USD100 | 100% | Investment holding, BVI |
| <i>Indirectly held:</i> | | | | | |
| Ludao PRC | Established in the PRC on 23 August 2002 | HKD120,000,000 | HKD120,000,000 | 100% | Manufacturing and selling of aerosol products, the PRC |

All subsidiaries are limited liability companies.

(b) Other Reserves

| | Share option reserves RMB'000 | Exchange reserves RMB'000 | Total RMB'000 |
|---|----------------------------------|------------------------------|------------------|
| At 1 January 2014 | – | (273) | (273) |
| Currency translation differences | – | 172 | 172 |
| At 31 December 2014 and 1 January 2015 | – | (101) | (101) |
| Share option scheme | | | |
| – Value of employee services (Note 21) | 17,022 | – | 17,022 |
| – Value of other services (Note 21) | 3,906 | – | 3,906 |
| Currency translation differences | – | 8,593 | 8,593 |
| At 31 December 2015 | 20,928 | 8,492 | 29,420 |

Notes to the Consolidated Financial Statements

32 BENEFITS AND INTERESTS OF DIRECTORS

(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 | | Share based compensation | | Total | |
|--|-----------------|-----------------|-----------------|-----------------|--|-----------------|--------------------------|-----------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
| Executive Directors | | | | | | | | | | |
| Mr. Yu Yuerong (i) | - | - | 458 | 174 | 12 | 6 | - | - | 470 | 180 |
| Mr. Wang Xiaobing | - | - | 138 | 142 | 8 | 4 | 2,104 | - | 2,250 | 146 |
| Mr. Han Jianhua (ii) | - | - | 106 | 127 | - | - | - | - | 106 | 127 |
| Ms. Pan Yili | - | - | 102 | 127 | 4 | 4 | 1,578 | - | 1,684 | 131 |
| Mr. Chen Baoyuan (iii) | - | - | 132 | - | 3 | - | 2,104 | - | 2,239 | - |
| Ms. Wang Jinfei (iii) | - | - | 225 | - | 11 | - | 1,841 | - | 2,077 | - |
| | - | - | 1,161 | 570 | 38 | 14 | 7,627 | - | 8,826 | 584 |
| Independent non-executive Directors | | | | | | | | | | |
| Ms. Cho Mei Ting | 145 | 143 | - | - | - | - | - | - | 145 | 143 |
| Mr. Wong Chi Wai | 145 | 143 | - | - | - | - | - | - | 145 | 143 |
| Mr. Ruan Lianfa | 142 | 142 | - | - | - | - | - | - | 142 | 142 |
| | 432 | 428 | - | - | - | - | - | - | 432 | 428 |

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

(ii) Resigned on 1 August 2015.

(iii) Appointed on 1 August 2015.

Notes to the Consolidated Financial Statements

32 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2014: one) directors whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining one individual (2014: four) during the year are as follows:

| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 151 | 664 |
| Share based compensation | 2,104 | – |
| Retirement scheme contribution | 4 | 11 |
| | 2,259 | 675 |

| | Number of individuals | |
|------------------------------|-----------------------|----------|
| | 2015 | 2014 |
| Emoluments bands | | |
| Nil to HKD1,000,000 | – | 4 |
| HKD1,000,000 to HKD2,000,000 | – | – |
| HKD2,000,000 to HKD3,000,000 | 1 | – |
| | 1 | 4 |

- (c) 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.
- (d) There was no directors' retirement benefits, directors' termination benefits, consideration provided to third parties for making available directors' services and no loans, quasi-loans or other dealings entered into by the Group in favour of any directors, bodies corporate controlled by and entities connected with such directors during the year (2014: Nil).
- (e) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> | 2013 <i>RMB'000</i> | 2012 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| REVENUE | 266,010 | 253,795 | 251,382 | 228,852 | 212,676 |
| Cost of sales | (200,275) | (189,094) | (188,860) | (173,574) | (163,292) |
| Gross profit | 65,735 | 64,701 | 62,522 | 55,278 | 49,384 |
| Other income and other gain/(loss) – net | 5,209 | 3,885 | 7,775 | 5,110 | (365) |
| Selling expenses | (18,543) | (16,109) | (11,423) | (9,967) | (8,042) |
| Administrative expenses | (46,391) | (27,568) | (29,648) | (22,980) | (14,913) |
| Finance income – net | 1,806 | (747) | (230) | 856 | 462 |
| PROFIT BEFORE INCOME TAX | 7,816 | 24,162 | 29,456 | 28,297 | 26,526 |
| Income tax expense | (4,249) | (3,654) | (5,449) | (4,485) | (4,014) |
| PROFIT FOR THE YEAR | 3,567 | 20,508 | 24,007 | 23,812 | 22,512 |

ASSETS AND LIABILITIES

| | Year ended 31 December | | | | |
|-------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2015 <i>RMB'000</i> | 2014 <i>RMB'000</i> | 2013 <i>RMB'000</i> | 2012 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| TOTAL ASSETS | 412,621 | 342,521 | 295,800 | 209,362 | 192,077 |
| TOTAL LIABILITIES | 100,510 | 139,680 | 113,397 | 116,400 | 120,849 |
| | 312,111 | 202,841 | 182,403 | 92,962 | 71,228 |

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2014 and 2015 and the consolidated assets and liabilities of the Group as at 31 December 2014 and 2015 are set out on pages 42 to 95 of this annual report.
2. The above summary was prepared as if the current structure of the Group had been in existence throughout these financial years.