

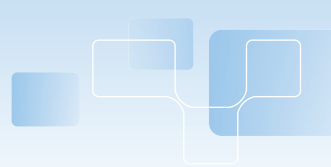
中國綠島科技有限公司

CHINA LUDAO TECHNOLOGY COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

Interim Report
2016



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yu Yuerong (*Chairman*)
Mr. Chen Baoyuan
Ms. Pan Yili
Ms. Wang Jinfei
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

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Grand Cayman KY1-1108
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HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKER

The Hongkong & Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

WEBSITE

www.ludao.cn

STOCK CODE

2023



BUSINESS AT A GLANCE

China Ludao Technology Company Limited (the “Company”) and its subsidiaries (collectively, the “Group”) is one of the leading manufacturers specializing in aerosol products in the People’s Republic of China (“PRC”). The Group is principally engaged in the research and development, manufacture and sale of aerosol and related products. The Company sells our products on contract manufacturing service (“CMS”) basis to overseas markets and on original brand manufacturing (“OBM”) basis in the PRC market. The Group’s 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.

The Company’s OBM business which offer products under our own brand names of “Green Island”, “Ludao” (“綠島”), “JIERJIA” (“吉爾佳”) and “EAGLEIN KING” (“鷹王”), mainly through a network of distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC.

The global economy was fluctuating in the first half of 2016. The United States (the “US”) has slowed down the growth of its economy while the European Union’s economy was still too vulnerable to be recovered. In China, the overall economy was stable during the six months ended 30 June 2016 (the “Reporting Period”), with an increase of approximately 6.7% in GDP for the first and second quarter respectively. However, this growth represented an approximately 0.3% lower than the one in the corresponding period of last year. To overcome the adverse economic stress, the board of directors (“Board” or “Directors”) and the management of the Company fully understand the overall situation so as to adopt a proper business strategy. Meanwhile, the Company has also conducted substantial investigations and researches towards the market, and strengthened the strategic cooperation with different customers. Therefore, the Group’s response capability has been significantly improved, and the advantage in research & development and cost control has been consolidated. Despite the turnover of the Group’s OBM business has decreased in the first half of 2016, the turnover of its CMS business has continued to increase.

For the six months ended 30 June 2016, the turnover of the Group was RMB141.1 million representing an increase of approximately 11.1% as compared to the corresponding period of 2015. Accordingly, our Group recorded a net profit of RMB14.0 million as compared to a net loss of RMB9.6 million for the corresponding period in 2015. The earnings per share of the Group was RMB0.03 during the Reporting Period as compared to the losses per share of RMB0.02 for the corresponding period of last year.

Looking forward, 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 the Group’s core product competitiveness and brand images and exploring new markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

CMS

For the six months ended 30 June 2016, the turnover for the Group's CMS business was approximately RMB107.4 million (2015: RMB89.9 million), representing an increase of approximately 19.5% as compared to the corresponding period in 2015.

Despite the global economy had a fluctuating and slow growth in the first half of 2016, the Group has positively developed the markets in South America, North America and Japan and consolidated the strategic cooperation with customers. Besides, the Group has made the additional efforts on its auto care products and personal care products. The positive trend in Group's CMS business continued benefited from the increasing number of overseas orders. As such, the Group will still develop new markets apart from its deepening US market, and continue to maintain high quality products with competitive prices and strengthen its CMS business in the second half of 2016.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2016 was approximately RMB33.7 million (2015: RMB37.0 million), representing a decrease of approximately 8.9% as compared to the corresponding period in 2015.

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 the 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 toward its OBM business.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2016 was approximately RMB103.5 million (2015: RMB96.0 million), representing an increase of approximately 7.8% as compared to the corresponding period of 2015. Such increase was in line with the overall increase in the Group's sales of approximately 11.1%.



Gross Profit and Gross Profit Margin

For the six months ended 30 June 2016, the Group recorded gross profit of approximately RMB37.6 million (2015: RMB30.9 million) and the gross profit margin was approximately 26.7% (2015: 24.4%). The increase in gross profit margin was benefited from the improvement in the cost control achieved by the Group in the first half of 2016.

Other Income and Other Gains – Net

Other income and other gains of the Group was approximately RMB0.4 million (2015: RMB2.1 million), representing a decrease of approximately RMB1.7 million as compared to the corresponding period of 2015. Such decrease was primarily due to the decrease on technical service fee received during the Reporting Period.

Expenses

Selling Expenses

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the six months ended 30 June 2016, selling expenses was approximately RMB7.3 million (2015: RMB6.0 million), representing an increase of approximately 21.7% as compared to the corresponding period of 2015. The increase was primarily due to the increase in travelling and transportation expenses.

Administrative Expenses

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2016, administrative expenses was approximately RMB14.5 million (2015: RMB33.7 million), representing a decrease of approximately 57.0% as compared to the corresponding period of 2015. The significant decrease in administrative expenses was primarily due to share option expenses incurred during the six months ended 30 June 2015 of approximately RMB20.9 million.

Finance Income/(Costs) – net

For the six months ended 30 June 2016, the Group recorded net finance income of approximately RMB0.5 million (2015: net finance costs of RMB0.7 million). The change from net finance loss to net finance income was primarily due to the increase in interest income of approximately RMB0.3 million and the decrease in interest expense of approximately RMB0.9 million.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2016 was RMB2.8 million, representing an increase of approximately RMB0.5 million as compared with approximately RMB2.3 million for the corresponding period of 2015, which was mainly attributable by the increase in profit of the Group.

Net Profit/(Loss)

The Group recorded net profit for the six months ended 30 June 2016 of approximately RMB14.0 million (2015: net loss of RMB9.6 million), representing a significant increase of approximately RMB23.6 million as compared to the corresponding period of 2015. Such increase was primarily due to the net impact of (i) increase in gross profit of approximately RMB6.7 million; and (ii) decrease in administrative expense of approximately RMB19.1 million.

Highlights of Balance Sheet

Prepayment & Deposits

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

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Prepayment to suppliers of raw materials	17,290	17,587
Deposits for price-locking agreements	28,000	22,900
Other prepayments & deposits	2,754	1,787
	48,044	42,274

Liquidity and Financial Resources

As at 30 June 2016, the Group had net current assets of approximately RMB223.5 million (31 December 2015: RMB216.2 million) and the Group's cash and bank deposits totalled approximately RMB143.5 million (31 December 2015: 139.5 million). The current ratio of the Group slightly increased from 3.2 as at 31 December 2015 to 3.3 as at 30 June 2016.

The equity attributable to shareholders of the Company as at 30 June 2016 amounted to approximately RMB326.4 million (31 December 2015: RMB312.1 million). The gearing ratio (based on the total debt over the total equity) of the Group has decreased from 19% as at 31 December 2015 to 17% as at 30 June 2016.



Borrowings and the Pledge of the Group's Assets

Bank borrowings of RMB2.6 million (31 December 2015: nil) and notes payable of RMB51.9 million (31 December 2015: RMB58.6 million) were secured by our properties, plant and equipment, land use rights and pledge bank deposits with an aggregate carrying amount of RMB31.0 million (31 December 2015: RMB36.8 million). Bank borrowings were mainly used for working capital management and/or financing the Group's purchases.

Save as disclosed herein, there was no other charge on the Group's assets and the Group did not have any significant contingent liabilities.

Financing

The Board considers that the existing financial resources together with funds generated from business operations will be sufficient to meet future expansion plans and, if necessary, the Group believes that it will be capable of obtaining additional financing with favourable terms.

Capital Expenditure

During the six months ended 30 June 2016, the Group's capital expenditure amounted to approximately RMB11.4 million (six months ended 30 June 2015: RMB15.3 million), of which RMB 10.9 million (2015: RMB 15.0 million) was used for the purchases of property, plant and equipment.

At as 30 June 2016, the Group had capital commitments of RMB3.2 million (31 December 2015: RMB4.3 million) in respect of fixed assets, which are to be funded by internal resources.

Contingent Liabilities

As at 30 June 2016, the Group did not have any significant contingent liabilities (31 December 2015: nil).

Exchange Rate Exposure

During the six months ended 30 June 2016, the Group mainly operates in the PRC with most transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in currencies other than RMB, the Group currently do not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Employees and Emoluments Policy

As at 30 June 2016, the Group had employed a total of 398 employees in the PRC and Hong Kong (31 December 2015: 373). The Group offers comprehensive and competitive remuneration, retirement scheme, a share options scheme and benefit package to its employees. The emoluments of Directors have been determined with reference to the skills, knowledge, and involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the period. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group will review the remuneration policy and related packages on a regular basis.


Material Investment Held, Material Acquisition and Disposal of Subsidiary and Associated Company

During the Reporting Period, the Group did not have any material investment held, material acquisition and disposal of subsidiary and associated company.

Use of Net Proceeds from Initial Public Offering

During the six months ended 30 June 2016, the net proceeds from the Company's Initial Public Offer ("IPO") had been applied as follows:

	Actual net proceeds HK\$ million	Amount utilised up to 30 June 2016 HK\$ million	Unutilised balance as at 30 June 2016 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	14	–
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	55	4



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

Fund Raising Activity

The Company has not conducted any equity fund raising activity for the 12 months immediately before 30 June 2016 and the date of this report.

Future Plans for Material Investments or Capital Assets

The new production plant, as disclosed in the Company's announcement on 15 June 2015 and in the 2015 annual report, has completed the trial run and officially commenced production since June 2016. In the second half of 2016, the Company intends to invest in upgrading the existing production plant and production line.

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.

Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2016 (2015: nil).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Note	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	6	141,075	126,928
Cost of sales	7	(103,473)	(95,983)
Gross profit		37,602	30,945
Other income and other gains	6	422	2,052
Selling expenses	7	(7,269)	(5,958)
Administrative expenses	7	(14,536)	(33,676)
Operating profit/(loss)		16,219	(6,637)
Finance income	9	506	196
Finance costs	9	(9)	(848)
Finance income/(costs) – net		497	(652)
Profit/(loss) before income tax		16,716	(7,289)
Income tax expense	10	(2,756)	(2,314)
Profit/(loss) for the period		13,960	(9,603)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		282	594
Total comprehensive income/(loss) for the period		14,242	(9,009)
Earnings/(losses) per share for profit/(loss) attributable to owners of the Company during the period			
– basic and diluted (RMB per share)	11	0.03	(0.02)

The notes on pages 15 to 27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
ASSETS			
Non-current assets			
Land use rights	12	5,371	4,999
Property, plant and equipment	13	89,235	85,836
Intangible assets		488	539
Deferred income tax assets		394	394
Prepayment for property, plant and equipment		8,483	5,345
		103,971	97,113
Current assets			
Inventories		36,700	35,037
Trade and other receivables	14	138,546	140,941
Cash and cash equivalents		129,651	120,819
Pledged bank deposits		13,866	18,711
		318,763	315,508
Total assets		422,734	412,621
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	16	3,801	3,801
Share premium		134,143	134,143
Other reserves		75,517	75,235
Retained earnings		112,892	98,932
Total equity		326,353	312,111

The notes on pages 15 to 27 are an integral part of these interim condensed consolidated financial statements.

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

		30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
	Note		
LIABILITIES			
Non-current liabilities			
Deferred government grants		<u>1,155</u>	<u>1,155</u>
Current liabilities			
Trade and other payables	15	<u>90,597</u>	98,750
Current income tax liabilities		<u>1,985</u>	605
Borrowings		<u>2,644</u>	–
		<u>95,226</u>	<u>99,355</u>
Total liabilities		<u>96,381</u>	<u>100,510</u>
Total equity and liabilities		<u>422,734</u>	<u>412,621</u>
Net current assets		<u>233,537</u>	<u>216,153</u>
Total assets less current liabilities		<u>327,508</u>	<u>313,266</u>

The notes on pages 15 to 27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	(Unaudited)				
	Share capital RMB'000 (Note 16)	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2015	3,170	52,153	50,693	96,825	202,841
Comprehensive income					
Loss for the period	-	-	-	(9,603)	(9,603)
Currency translation differences	-	-	594	-	594
Total comprehensive income/(loss)	-	-	594	(9,603)	(9,009)
Transaction with owners					
Share option scheme					
- Value of share option granted	-	-	20,928	-	20,928
Share placing (note 16(a))	631	81,990	-	-	82,621
Total transactions with owners	631	81,990	20,928	-	103,549
Balance at 30 June 2015	3,801	134,143	72,215	87,222	297,381

For the six months ended 30 June 2016

	(Unaudited)				
	Share capital RMB'000 (Note 16)	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2016	3,801	134,143	75,235	98,932	312,111
Comprehensive income					
Profit for the period	-	-	-	13,960	13,960
Currency translation differences	-	-	282	-	282
Total comprehensive income	-	-	282	13,960	14,242
Balance at 30 June 2016	3,801	134,143	75,517	112,892	326,353

The notes on pages 15 to 27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	19,345	41,655
Interest paid	(9)	(848)
Income tax paid	(1,378)	(2,448)
	<u>17,958</u>	<u>38,359</u>
Cash flows from investing activities		
Payment for property, plant and equipment	(10,899)	(15,018)
Purchase of land use rights	(429)	–
Purchase of intangible assets	(49)	(309)
Decrease/(increase) in pledged bank deposits	4,845	(1,811)
Interest received	506	196
	<u>(6,026)</u>	<u>(16,942)</u>
Cash flows from financing activities		
Issue of shares – net of issue cost	–	82,621
Increase/(decrease) in bank borrowings	2,644	(11,862)
Increase/(decrease) in notes payable	(6,645)	7,250
	<u>(4,001)</u>	<u>78,009</u>
Net increase in cash and cash equivalents	7,931	99,426
Cash and cash equivalents at beginning of the period	120,819	26,821
Currency translation differences	901	(257)
	<u>129,651</u>	<u>125,990</u>
Cash and cash equivalents at the end of the period	129,651	125,990

The notes on pages 15 to 27 are an integral part of these interim condensed consolidated financial statements.



NOTES TO THE INTERIM CONDENSED 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 under the Companies Law (2011 Revision) of the Cayman Islands. The address of the Company’s registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1180, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sale of air fresheners, aerosol insecticides, household cleaners and auto care products in the People’s Republic of China (the “PRC”). The ultimate holding company of the Company is Ludao China Investments Limited (“Ludao Investments”) which is wholly owned by Mr. Yu Yuerong (“Controlling Shareholder” or “Mr. Yu”). The ultimate controlling party of the Group is Mr. Yu Yuerong.

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

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 August 2016.

2 BASIS OF PREPARATION

This unaudited interim consolidated financial statements for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’. The unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

None of the new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2016 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 7 (Amendments)	Disclosure initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised loss	1 January 2017
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

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 CMS basis to overseas market and on 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 considered that there is only one reportable operating segment.

Geographical information

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

Revenue from external customers

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
United States of America	61,223	58,462
Mainland China	33,656	36,971
Europe	8,472	8,659
Others	37,724	22,836
	141,075	126,928

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

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

5 SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

Non-current assets

Non-current assets consist of land use rights, property, plant and equipment and intangible assets which are all located in the PRC as at 30 June 2016 and 31 December 2015.

Information about major customers

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Customer A	28,817	–
Customer B	17,823	13,464
Customer C	15,301	9,634
Customer D	13,687	–
Customer E	12,203	15,877
Customer F	11,745	40,859
	99,576	79,834

6 REVENUE, OTHER INCOME AND OTHER GAINS

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Revenue		
Sales of goods	141,075	126,928
Other income and other gains		
Government grants	1	35
Others	421	2,017
	422	2,052

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

7 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Depreciation and amortisation	2,822	2,242
Employee benefit expenses, excluding amount including in research and development costs	12,008	10,874
Raw materials used	93,136	86,457
Changes in inventories of finished goods and work in progress	2,207	2,705
Water and electricity expenditures	1,538	1,192
Transportation and travelling expenses	4,112	3,295
Telecommunication expenses	197	225
Advertising costs	379	504
Other tax expenses	1,056	1,015
Research and development costs		
– Employee benefit expenses	2,355	1,873
– Materials and others, excluding depreciation and amortisation	1,672	1,223
Entertainment expenses	448	187
Share option expenses (<i>Note</i>)	–	20,928
Professional services fee	609	1,049
Other expenses	2,739	1,848
	125,278	135,617
Total	125,278	135,617

Note:

On 29 June 2015, the Company granted share option to certain directors, employees and eligible participants to subscribe for a total of 40,000,000 ordinary shares of the Company, subject to their acceptance, 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, an one-off non-cash share option expense had been expensed during the period ended 30 June 2015.

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

8 DIRECTORS' EMOLUMENTS

The Directors' and chief executive's emoluments during the six months ended 30 June 2015 and 2016 are equivalent to key management compensation, and is as follows:

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Fee	222	213
Salaries	682	321
Pension scheme contributions	26	16
	<hr/>	<hr/>
Total compensation paid to key management personnel	930	550
	<hr/>	<hr/>

9 FINANCE INCOME/(COSTS) – NET

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Interest income	506	196
Interest expense	(9)	(848)
	<hr/>	<hr/>
Finance income/(costs) – net	497	(652)
	<hr/>	<hr/>

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

10 INCOME TAX EXPENSE

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

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

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

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the six months ended 30 June 2016.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Company Limited ("Ludao PRC"), an indirectly wholly-owned subsidiary of the Company, 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 will be due on September 2016 and the Company is in the process of applying of such qualification at present.

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax	<u>2,756</u>	<u>2,314</u>

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

11 EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2015 and 2016.

	Six months ended 30 June	
	2016	2015
Profit/(loss) attributable to equity holders of the Company (RMB'000)	<u>13,960</u>	<u>(9,603)</u>
Weighted average number of ordinary shares in issue (thousands of shares)	<u>480,000</u>	<u>422,541</u>
Basic earnings/(losses) per share (RMB per share)	<u>0.03</u>	<u>(0.02)</u>
Diluted earnings/(losses) per share (RMB per share) <i>(Note)</i>	<u>0.03</u>	<u>(0.02)</u>

Note:

Diluted earnings/(losses) 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 shares) for the same amount of proceed are share issues for no consideration which causes dilution to earnings/(losses) per share. During the Reporting Period, the diluted earnings/(losses) per share of the Company approximates the basic earnings/(losses) per share.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 LAND USE RIGHT

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

	2016	2015
	RMB'000	RMB'000
Net book amount as at 1 January	4,999	5,115
Addition	429	–
Amortisation	(57)	(116)
Net book amount as at 30 June/31 December	5,371	4,999

As at 30 June 2016 and 31 December 2015, the Group's land use rights were pledged to secure notes payable.

13 PROPERTY, PLANT AND EQUIPMENT

	2016	2015
	RMB'000	RMB'000
Net book amount as at 1 January	85,836	70,284
Addition	6,187	20,676
Disposal	(123)	(49)
Depreciation provided during the period/year	(2,665)	(5,075)
Net book amount as at 30 June/31 December	89,235	85,836

As at 30 June 2016 and 31 December 2015, the Group's notes payable were secured by certain property, plant and equipment of the Group.

14 TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Trade receivables, net (a)	84,004	92,688
Prepayments and deposits	48,044	42,274
Other receivables	5,468	5,629
Notes receivable	1,030	350
	138,546	140,941

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2016 and 31 December 2015 respectively.

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

14 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Up to 3 months	63,205	65,401
3 to 6 months	16,531	23,400
6 to 12 months	3,982	3,855
Over 12 months	517	263
	84,235	92,919
Impairment provision	(231)	(231)
	84,004	92,688

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 62% (31 December 2015: 64%) of the Group's revenue for the period. They accounted for approximately 68% (31 December 2015: 76%) of the gross trade receivable balances as at 30 June 2016.

15 TRADE AND OTHER PAYABLES

	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade payables (a)	26,050	23,044
Notes payable (b)	51,945	58,590
Advance from customers	6,507	7,364
Other tax payables	1,830	3,863
Accrued expenses	2,112	3,848
Other payables	2,153	2,041
	90,597	98,750

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

15 TRADE AND OTHER PAYABLES *(Continued)*

The fair values of trade and other payables approximated to their carrying values as at 30 June 2016 and 31 December 2015 respectively.

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Up to 3 months	23,883	18,400
3 to 6 months	698	3,139
6 to 12 months	580	497
Over 12 months	889	1,008
	26,050	23,044

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

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

16 SHARE CAPITAL

	30 June 2016 and 31 December 2015	
	Number of shares (thousands)	HK\$'000
Authorized Capital:		
Ordinary shares of HK\$0.01 each	2,000,000	20,000
Issued and fully paid:		
480,000,000 ordinary shares of HK\$0.01 each	480,000	4,800

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

16 SHARE CAPITAL *(Continued)*

	Issued and fully paid: Share Capital The Group and Company Number of ordinary shares (of HK\$0.01 each)	RMB'000
At 1 January 2015	400,000,000	3,170
Share placing (a)	80,000,000	631
At 30 June 2015, 1 January 2016 and 30 June 2016	480,000,000	3,801

(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.

17 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2016 (2015: nil).

18 CONTINGENT LIABILITIES

As at 30 June 2016, the Group and the Company had no significant contingent liabilities (31 December 2015: nil).

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

19 COMMITMENTS

(a) Capital commitments – Group

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Property, plant and equipment	3,169	4,252

(b) Operating lease commitments

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Not later than one year	225	181
Later than one year and not later than five years	540	113
	765	294

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2016, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules"), were as follows:

Long positions in the Shares:

Name of Director	Number of Ordinary Shares		Interest in underlying shares		Approximate percentage of interests in the Company (Note 2)
	Personal Interests/ Interest of Spouse	Interest of a controlled corporation	Share Options (Note 1)	Total	
Mr. Yu	–	217,060,000 (Note 3)	3,500,000 (Note 4)	220,560,000	45.95%
Ms. Wang Jinfei ("Mrs. Yu")	217,060,000 (Note 3)	–	3,500,000	220,560,000	45.95%
Chen Baoyuan	600,000	–	4,000,000	4,600,000	0.96%
Ms. Pan Yili	–	–	3,500,000	3,500,000	0.73%
Mr. Wang Xiaobing	1,200,000	–	4,000,000	5,200,000	1.08%



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 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 30 June 2016.
- (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.

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.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of the options may be granted under the Share Option Scheme shall not exceed 10% of the Shares in issue since its obtains a fresh approval from the annual general meeting dated 13 May 2016 (i.e. 48,000,000 shares) 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.

Detail of the movements in the options granted under the Share Option Scheme for the six months ended 30 June 2016 is as follows:

Name of grantees	Number of share options				Outstanding as at 30 June 2016	Date of grant of the share options	Exercise period of the share options	Price of the shares on the date of grant per share <i>(Note)</i>	Exercise price of the share options per share
	Outstanding as at 1 January 2016	Granted during the period	Forfeited/Cancelled during the period	Exercised during the period					
Directors									
Chen Baoyuan	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	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	29/06/2015	29/6/2015 – 28/6/2017		
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.

There were no options granted in the Reporting Period under the Share Option Scheme since its refreshment on 13 May 2016 and up to 30 June 2016 and the date of this report.

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

As at 30 June 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and Chief Executives' Interests in Securities" above, the following shareholder had notified the Company of its relevant interests in the issued share capital of the Company:

Name of Shareholders	Capacity/ Nature of interests	Total number of ordinary shares and underlying shares (Note 1)	Approximate percentage of interests of the Company (Note 2)
Mr. Yu	Interest of spouse	3,500,000	45.95%
	Interest of a controlled corporation	217,060,000	
Ludao Investments (Note 3)	Beneficial Owner	217,060,000	45.22%
Mrs. Yu (Note 3)	Interest of spouse	217,060,000	45.95%
	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 30 June 2016.
- (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.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2016.



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 interim report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee comprises of three independent non-executive Directors, namely Mr. Wong Chi Wai (being the chairman of the Audit Committee), Ms. Cho Mei Ting and Mr. Ruan Lianfa.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited condensed consolidated financial statements matters of the Group for the six months ended 30 June 2016 and recommended its adoption by the Board.



REMUNERATION COMMITTEE

The Remuneration Committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. 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 Yuerong.

NOMINATION COMMITTEE

The Nomination Committee reviews the structure, size and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. 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 Yuerong.

CORPORATE GOVERNANCE PRACTICES

For the period under review, in the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules except CG Code provision A.2.1.

Pursuant to CG Code provision A.2.1, the role(s) 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, 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



CORPORATE GOVERNANCE PRACTICES *(Continued)*

Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

By order of the Board

Yu Yuerong

Chairman & Executive Director

Hong Kong
29 August 2016