

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



China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

ANNUAL RESULTS

The board (the “Board”) of directors (“Directors”) of China Ludao Technology Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2016 (the “Reporting Period”), together with the comparative figures for the year ended 31 December 2015. The following financial information is extracted from the audited consolidated financial statements as set out in the Group’s 2016 annual report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
Revenue	4	274,232	266,010
Cost of sales	5	<u>(196,990)</u>	<u>(200,275)</u>
Gross profit		77,242	65,735
Other income	4	559	1,713
Other gains	4	3,849	3,496
Selling expenses	5	(21,612)	(18,543)
Administrative expenses	5	<u>(35,817)</u>	<u>(46,391)</u>
Operating profit		24,221	6,010
Finance income		3,626	2,930
Finance costs		<u>(69)</u>	<u>(1,124)</u>
Finance income – net		<u>3,557</u>	<u>1,806</u>
Profit before income tax		27,778	7,816
Income tax expense	6	<u>(4,496)</u>	<u>(4,249)</u>
Profit for the year		23,282	3,567
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Currency translation differences		<u>260</u>	<u>2,154</u>
Total comprehensive income for the year			
attributable to the owners of the Company		<u>23,542</u>	<u>5,721</u>
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	8	<u>0.05</u>	<u>0.01</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

		As at 31 December	
	Note	2016	2015
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights		5,310	4,999
Property, plant and equipment	9	89,609	85,836
Investment property		6,400	–
Intangible assets		466	539
Deferred income tax assets		372	394
Prepayment for property, plant and equipment		3,917	5,345
		<u>106,074</u>	<u>97,113</u>
Current assets			
Inventories	10	37,723	35,037
Trade and other receivables	11	154,055	140,941
Financial assets at fair value through profit or loss		19,240	–
Cash and cash equivalents		25,851	120,819
Short-term bank deposits		81,100	–
Pledged bank deposits		14,371	18,711
		<u>332,340</u>	<u>315,508</u>
Total assets		<u><u>438,414</u></u>	<u><u>412,621</u></u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	14	3,801	3,801
Share premium	14	134,143	134,143
Other reserves		78,303	75,235
Retained earnings		119,406	98,932
Total equity		<u><u>335,653</u></u>	<u><u>312,111</u></u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2016

		As at 31 December	
	Note	2016	2015
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Deferred government grants		1,010	1,155
Bank borrowings	13	1,284	–
Deferred income tax liabilities		152	–
		<u>2,446</u>	<u>1,155</u>
Current liabilities			
Trade and other payables	12	99,230	98,750
Current income tax liabilities		178	605
Bank borrowings	13	907	–
		<u>100,315</u>	<u>99,355</u>
Total liabilities		<u>102,761</u>	<u>100,510</u>
Total equity and liabilities		<u>438,414</u>	<u>412,621</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Ludao Technology Company Limited was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. 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. The Group is principally engaged in the manufacturing and sale of aerosol products for household and auto care, air fresheners, personal care products and insecticides. The ultimate holding company of the Company is Ludao China Investments Holdings Limited which is wholly owned by Mr. Yu Yuerong, who has an effective 46.30% interest in the Company.

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 2017.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets through profit or loss and investment property, which are carried at fair value.

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.

3. 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 markets and on original brand manufacturing ("OBM") basis in the People's Republic of China (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.

Geographical information

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

Revenue and turnover from customers

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	61,541	74,661
United States of America	135,470	122,759
Europe	15,243	18,497
Others	61,978	50,093
	274,232	266,010

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

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:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	56,977	71,208
Customer B	31,780	8,279
Customer C	29,934	29,207
Customer D	28,017	17,655
Customer E	21,617	31,546
	168,325	157,895

4. REVENUE, OTHER INCOME AND OTHER GAINS

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Revenue		
Sales of goods	<u>274,232</u>	<u>266,010</u>
Other income		
Government grants	447	475
Others	<u>112</u>	<u>1,238</u>
	<u>559</u>	<u>1,713</u>
Other gains		
Foreign exchange gain	2,608	2,650
Fair value gain on investment property	1,028	–
Others	<u>213</u>	<u>846</u>
	<u>3,849</u>	<u>3,496</u>

5. EXPENSES BY NATURE

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Depreciation and amortisation	6,530	5,386
Employee benefit expenses, excluding amount included in share option expense and research and development costs	24,751	19,913
Share option expense (<i>Note 15</i>)	–	20,928
Raw materials used	181,965	187,419
Changes in inventories of finished goods and work in progress	(1,150)	(2,020)
Water and electricity expenditures	3,111	2,601
Transportation and travelling expenses	16,404	9,752
Telecommunication expenses	482	487
Advertising expenses	820	1,155
Other tax expenses	2,259	1,907
Research and development costs		
– Employee benefit expenses	4,469	4,172
– Materials and others, excluding depreciation and amortisation	3,663	3,620
Auditor's remuneration – Audit services	1,513	1,579
Entertainment expenses	1,134	512
Operating lease expenses	1,335	661
Professional services fees	1,313	1,680
Other expenses	5,820	5,457
Total	<u>254,419</u>	<u>265,209</u>

6. INCOME TAX EXPENSE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current income tax	4,322	4,227
Deferred income tax	174	22
	<u>4,496</u>	<u>4,249</u>

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 (2015: 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. Zhejiang Ludao Technology Co., Ltd. (“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 2016 to 31 December 2018.

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:

	2016	2015
	<i>RMB’000</i>	<i>RMB’000</i>
Profit before income tax	<u>27,778</u>	<u>7,816</u>
Tax calculated at the tax rate of 15% (2015: 15%)	4,167	1,172
Additional research and development deductible expenses	(660)	(638)
Expenses not deductible for tax purposes	<u>989</u>	<u>3,715</u>
	<u>4,496</u>	<u>4,249</u>

7. DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2016 (2015: nil).

8. 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.

	2016	2015
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>23,282</u>	<u>3,567</u>
Weighted average number of ordinary shares in issue (<i>thousands of shares</i>)	<u>480,000</u>	<u>452,000</u>
Basic earnings per share (<i>RMB per share</i>)	<u><u>0.05</u></u>	<u><u>0.01</u></u>

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 proceed 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.

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office furniture and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2015						
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	<u>32,177</u>	<u>17,418</u>	<u>6,207</u>	<u>2,162</u>	<u>12,320</u>	<u>70,284</u>
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	(1,661)	(1,960)	(1,022)	(432)	–	(5,075)
Closing net book amount	<u>32,104</u>	<u>22,138</u>	<u>5,714</u>	<u>3,063</u>	<u>22,817</u>	<u>85,836</u>
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	<u>32,104</u>	<u>22,138</u>	<u>5,714</u>	<u>3,063</u>	<u>22,817</u>	<u>85,836</u>
Year ended 31 December 2016						
Opening net book amount	32,104	22,138	5,714	3,063	22,817	85,836
Additions	1,245	1,677	306	748	6,137	10,113
Disposal	–	(124)	(6)	–	–	(130)
Transfer	28,020	868	–	–	(28,888)	–
Depreciation	(2,633)	(2,224)	(822)	(531)	–	(6,210)
Closing net book amount	<u>58,736</u>	<u>22,335</u>	<u>5,192</u>	<u>3,280</u>	<u>66</u>	<u>89,609</u>
At 31 December 2016						
Cost	71,141	36,598	9,148	6,160	66	123,113
Accumulated depreciation	(12,405)	(14,263)	(3,956)	(2,880)	–	(33,504)
Net book amount	<u>58,736</u>	<u>22,335</u>	<u>5,192</u>	<u>3,280</u>	<u>66</u>	<u>89,609</u>

Depreciation expenses have been charged in:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	2,229	1,426
Administrative expenses	3,959	3,625
Selling expenses	22	24
	<hr/>	<hr/>
Total	<u>6,210</u>	<u>5,075</u>

As at 31 December 2016, the Group's buildings with the carrying amount of RMB12,703,000 (2015: RMB13,134,000) were pledged to secure notes payable (Note 12(b)).

10. INVENTORIES

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	18,913	15,077
Work in progress	898	2,924
Finished goods	17,912	17,036
	<hr/>	<hr/>
Inventories – Net	<u>37,723</u>	<u>35,037</u>

The cost of inventories included in cost of sales during the year ended 31 December 2016 amounted to RMB180,815,000 (2015: RMB185,399,000).

During the year, the Group did not make or reverse any provision for inventories (2015: nil).

11. TRADE AND OTHER RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables, net (a)	88,349	92,688
Prepayments and deposits	62,074	42,274
Notes receivable	600	350
Other receivables	3,032	5,629
	<u>154,055</u>	<u>140,941</u>

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
RMB	96,532	77,828
United States dollar ("USD")	57,155	63,039
Hong Kong dollars ("HKD")	368	74
	<u>154,055</u>	<u>140,941</u>

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Up to 3 months	58,306	65,401
3 to 6 months	20,114	23,400
6 to 12 months	9,929	3,855
Over 12 months	291	263
	88,640	92,919
Impairment provision	(291)	(231)
	88,349	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 61% (2015: 64%) of the Group's revenue for the year. They accounted for approximately 78% (2015: 76%) and of the gross trade receivable balances as at 31 December 2016.

As at 31 December 2016, trade receivables of RMB9,929,000 (2015: RMB3,887,000) were past due but not considered impaired. These relate to a number of independent customers for whom there was no significant financial difficulty noted and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
6 to 12 months	9,929	3,855
Over 12 months	–	32
	9,929	3,887

As of 31 December 2016, trade receivables of RMB291,000 (2015: RMB231,000) were impaired and fully provided for. The impaired receivables mainly relate to wholesalers, which have not been dealing with the Company for more than 2 years. It was assessed that all of these 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.

12. TRADE AND OTHER PAYABLES

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (a)	24,435	23,044
Notes payable (b)	62,724	58,590
Advance from customers	4,501	7,364
Other taxes payable	1,993	3,863
Accrued expenses	2,467	3,848
Other payables	3,110	2,041
	<u>99,230</u>	<u>98,750</u>

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

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	97,276	94,979
HKD	382	268
USD	1,572	3,503
	<u>99,230</u>	<u>98,750</u>

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Up to 3 months	20,881	18,400
3 to 6 months	143	3,139
6 to 12 months	2,370	497
Over 12 months	1,041	1,008
	<u>24,435</u>	<u>23,044</u>

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 (Note 9) of the Group.

13. BANK BORROWINGS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Non-current		
Bank borrowings	<u>1,284</u>	–
Current		
Bank borrowings	<u>907</u>	–
	<u>2,191</u>	–

As at 31 December 2016, bank borrowings were secured by the investment property of the Group with carrying value of RMB6,400,000 (2015: nil).

The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates or maturity date whichever is earlier is within one year.

At 31 December 2016, the Group's bank borrowings were repayable as follows:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	907	–
Between 1 and 2 years	907	–
Between 2 and 5 years	377	–
	<u>2,191</u>	<u>–</u>

The annual weighted average effective interest rate as at 31 December 2016 was 5.46% (2015: nil).

The carrying amount of bank borrowings is denominated in RMB and approximates its fair value as the interest of borrowings are at floating-rate and the impact of discounting is not material.

14. SHARE CAPITAL AND SHARE PREMIUM

	31 December 2016 and 2015	
	Number of shares <i>(thousands)</i>	<i>HK\$'000</i>
Authorised Capital:		
Ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>20,000</u>
	Issued and fully paid:	Share
	Share capital	premium
	<i>Number of ordinary shares (of HKD0.01 each)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2015 and 31 December 2016	<u>480,000,000</u>	<u>3,801</u> <u>134,143</u>

All Shares issued rank pari passu against each other.

15. SHARE BASED PAYMENTS

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 of 40,000,000 outstanding options (2015: 40,000,000) were exercisable upon grant date.

None of above share options were exercised in 2016 (2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

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

Our OBM business 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.

Despite of the continued downturn of global economic growth, the sales of Group’s CMS business during the Reporting Period maintained at a steady growth due to the prompt and proper business strategy formulated by the Board and the management of the Group and through the dedicated efforts of our sales team. Although the PRC economy maintained a moderate, steady and positive development, the Group’s OBM business suffered adverse impact from the sluggish consumer confidence and consumption level together with fierce competition in securing domestic customer orders. Besides unwavering efforts on exploring global market, we also focus on developing domestic market. Going forward, we will strive to improve the competitiveness of OBM products through focusing on cost control, research and development of new products, improvement of product quality as well as expansion of sales network.

For the Reporting Period, the turnover and net profit of the Group were approximately RMB274.2 million and RMB23.3 million respectively, representing an increase of approximately 3.1% and 552.7% respectively over 2015. Basic earnings per share was approximately RMB5 cents (2015: RMB1 cents).

FINANCIAL REVIEW

Turnover

CMS

For the Reporting Period, the turnover for the Group's CMS business was approximately RMB212.7 million (2015: RMB191.3 million), representing an increase of approximately 11.2% as compared with last year.

Despite the downturn of global economic growth, the Group has positively developed the markets in South America, North America and Japan and consolidated the strategic cooperation with customers. In addition, the Group has made additional efforts in its auto care and personal care products. Therefore, the Group's CMS business continued to maintain a positive trend. The Group will continue to explore and develop new overseas markets and maintain high product quality with competitive prices in order to strengthen its CMS business in the upcoming financial year.

OBM

The turnover for OBM business of the Group for the Reporting Period was approximately RMB61.5 million (2015: RMB74.7 million), representing a decrease of approximately 17.6% as compared with last year.

With the gradually 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 prudent and optimistic towards its OBM business.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB197.0 million (2015: RMB200.3 million), representing a decrease of approximately 1.6% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB77.2 million (2015: RMB65.7 million), representing an increase of approximately 17.5% as compared to that of the prior year. The gross profit margin was approximately 28.2% (2015: 24.7%), the relevant increase of approximately 3.5% was primarily due to (i) the improvement in the cost control and (ii) no further share option expenses was incurred as compared to that of the prior year.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB23.3 million (2015: RMB3.6 million), representing an increase of approximately 552.7% when compared to the prior year. The net profit margin of the Group increased from 1.3% in 2015 to 8.5% in 2016. Such increase was primarily due to the share option expenses of approximately RMB20.9 million incurred in 2015 and no such expenses incurred during the Reporting Period.

Expenses

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, transportation and travelling expenses, advertising expenses and exhibition expenses. For the Reporting Period, selling expenses was approximately RMB21.6 million (2015: RMB18.5 million), representing an increase of approximately 16.6% as compared to that of the prior year. The increase was primarily due to the increase in transportation expenses incurred from the sales to the Group's overseas customers during the Reporting Period.

Administrative Expenses

Administrative expenses consist of staff salaries and benefit expenses, depreciation and amortisation, transportation and travelling expenses, office expenses, research and development costs, other tax expenses and entertainment expenses. For the Reporting Period, administrative expenses was approximately RMB35.8 million (2015: RMB46.4 million), representing a decrease of approximately 22.8% as compared to that of the prior year. Although the Group incurred more in staff salaries and benefit expenses, the administrative expenses dropped significantly as compared to that of 2015. The reason was primarily due to the share option expenses of approximately RMB17.0 million incurred in 2015 and no such expenses incurred during the Reporting Period.

Finance expense – net

For the Reporting Period, the Group recorded net finance income of approximately RMB3.6 million (2015: net finance expenses RMB1.8 million), representing an increase of approximately RMB1.8 million as compared to that of the prior year. The increase in finance income was primarily contributed by the increment of interest income from bank deposits and reduction of interest expense from bank borrowings.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB4.5 million, representing an increase of approximately RMB0.3 million as compared with RMB4.2 million in 2015. Effective income tax rate for the current period was approximately 16.2%, which was lower as compared with approximately 54.4% over 2015. The lower effective income tax rate was primarily due to the decrease in expenses not deductible for tax purpose.

HIGHLIGHT OF BALANCE SHEET

Trade Receivables

As at 31 December 2016, trade receivables of approximately RMB9.9 million were past due, representing an increase of approximately 155.4% as compared to the amount of RMB3.9 million as at 31 December 2015. The amount of the provision was RMB291,000 as at 31 December 2016 (2015: RMB231,000). The individually impaired receivables mainly relate to wholesalers, which no longer dealt with the Company for more than 2 years. It was assessed that all of the receivables would not be recovered.

FINAL DIVIDEND

The Board resolved not to recommend of any final dividend for the year ended 31 December 2016 (2015: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the total assets of the Group amounted to approximately RMB438.4 million (2015: RMB412.6 million), and net current assets of approximately RMB232.0 million (2015: RMB216.2 million). The gearing ratio (based on the total debt over the total equity) of the Group has remained at approximately 19% as at 31 December 2016 and 2015.

BORROWINGS

As at 31 December 2016 bank borrowings of the Group amounted to approximately RMB2.2 million (2015: nil) with full maturity until 2019. As at 31 December 2016, such bank borrowings were secured by investment property of the Group.

CAPITAL STRUCTURE

During the Reporting Period, there were no changes in the Company's share capital.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2016, the Group's operating lease commitment amounted to approximately RMB3.8 million (2015: RMB0.3 million). As at 31 December 2016, the Group had capital commitments of approximately RMB1.3 million (2015: RMB4.3 million) in respect of property, plant and equipment.

CONTINGENT LIABILITIES

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

EXCHANGE RATE EXPOSURE

During the Reporting Period, the Group mainly operated in the PRC with most transactions settled 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, the majority of our assets and liabilities were denominated in 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 2016, the Group had employed a total of 394 employees (2015: 373). 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.

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group invested approximately RMB0.4 million, RMB10.1 million, RMB5.4 million and RMB19.2 million in land use rights, property, plant and equipment, investment property and financial assets at fair value through profit or loss respectively (2015: nil, RMB20.7 million, nil and nil respectively). 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 2016, 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 2016 HK\$ million	Balance unutilised balance as at 31 December 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	<u>59</u>	<u>55</u>	<u>4</u>

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 Company has not conducted any equity fund raising activity for the 12 months immediately before 31 December 2016 and the date of this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As disclosed in the announcement dated 15 June 2015, 2015 annual report and 2016 interim report of the Company, the new production plant has completed the trial run and officially commenced production since June 2016. In the second half of 2016, the Company invested in upgrading the existing production plant and production line, and planned to continue upgrading the existing production line in the future, with an aim to improve the automatic level constantly.

PROSPECTS

In view of the global economic growth situation is still not optimistic, as the global economy are still shadowed by issues such as the potential decline of economic growth, increasing vulnerability of financial market, anti-globalisation trend, US policy shifts, the political conflicts between the European countries and the progress of Brexit. These factors will continue to cast an adverse effect on the Group’s CMS business. The Board and the management of the Group will formulate prompt and proper business strategy. Meanwhile, the Company will put more efforts into investigations and researches towards the market and strengthen the strategic cooperation with different customers, in order to offset the negative impact from aforesaid factors. Going forward, the Group will seek to provide comprehensive solutions for the development of aerosol products globally, create higher values for our customers, improving long-term relationship with our existing CMS customers and constantly exploring new markets through the research and development of new products, controlling operating cost and manufacturing capacity enhancement.

On the other hand, with the solid foundation of the Group, we still hold a prudent and optimistic view in the domestic market and our OBM business. The Group will continue to strive for improving the existing OBM business by focusing on the development of high value added products, upgrading existing OBM production line, maintaining stringent cost control, improving our product brand images and enhancing our product competitiveness.

SUBSEQUENT EVENT AFTER THE ANNUAL PERIOD

There are no significant subsequent events since the end of the Reporting Period.

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”) 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.

MODEL CODE FOR 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 2016. 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.

AUDIT COMMITTEE

The Company established the Audit Committee on 16 September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of 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, risk management and internal control procedures.

The Audit Committee currently comprises of three independent non-executive Directors, namely Mr. Chan Yin Tsung (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 two meetings to review the interim and annual financial results and reports, financial reporting and the report on the Company’s internal control and risk management review and process.

The Audit Committee has reviewed together with the management and the Company’s independent auditor the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31 December 2016 and this announcement.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereon for the year ended 31 December 2016 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 September 2013 with written terms of reference in compliance with the Rule 3.25 of the Listing Rules and paragraph B.1 of 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 the policy and structure for all Directors' and senior management's remuneration, to make recommendations to the Board on the remuneration package of the Directors and senior management. The remuneration policy for the Directors and senior management was based on their experience, level, responsibilities and general market conditions.

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 currently comprises of four members, being three are independent non-executive Directors, namely, Mr. Chan Yin Tsung (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 two 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 are 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; ongoing review the structure, size, composition and diversity of the Board on a regular basis and monitor the training and continuous professional development of Directors and senior management.

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

During the Reporting Period, the Nomination Committee has held three meetings to review the size and composition of the Board and make recommendations to the Board in accordance with the Nomination Committee's written term reference.

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 2016.

PRE-EMPTIVE RIGHTS

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

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15 May 2017 to Wednesday, 17 May 2017, 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 annual general meeting to be held on Wednesday, 17 May 2017, 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, 12 May 2017.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.ludaocn.com>). The annual report of the Company for the year ended 31 December 2016 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Yu Yuerong
Chairman & Executive Director

Hong Kong, 23 March 2017

As at the date of this announcement, the Directors of the Company comprises four executive directors, namely Mr. Yu Yuerong, Mr. Chen Baoyuan, Ms. Pan Yili and Mr. Wang Xiaobing, and three independent non-executive directors, namely Mr. Chan Yin Tsung, Ms. Cho Mei Ting and Mr. Ruan Lianfa.