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)

2016 ANNUAL REPORT

A Better World For Everyone

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yu Yuerong *(Chairman)*
Mr. Chen Baoyuan
Ms. Pan Yili
Ms. Wang Jinfei (resigned on 26 January 2017)
Mr. Wang Xiaobing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung (appointed on 1 November 2016)
Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Wong Chi Wai (resigned on 1 November 2016)

AUDIT COMMITTEE

Mr. Chan Yin Tsung *(Chairman)*
(appointed on 1 November 2016)
Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Wong Chi Wai (resigned on 1 November 2016)

NOMINATION COMMITTEE

Ms. Cho Mei Ting *(Chairlady)*
Mr. Chan Yin Tsung
(appointed on 1 November 2016)
Mr. Ruan Lianfa
Mr. Wong Chi Wai (resigned on 1 November 2016)
Mr. Yu Yuerong

REMUNERATION COMMITTEE

Mr. Chan Yin Tsung *(Chairman)*
(appointed on 1 November 2016)
Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Wong Chi Wai (resigned on 1 November 2016)
Mr. Yu Yuerong

COMPANY SECRETARY

Mr. Ho Ka Wai (appointed on 13 January 2017)
Mr. Li Wai See (resigned on 13 January 2017)

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 02-03, 28/F.
China Merchants Tower
Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

INDEPENDENT AUDITOR

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

LEGAL ADVISOR

F. Zimmern & Co.
Rooms 1002 – 1003
10/F, York House
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

WEBSITE

www.ludaocn.com

STOCK CODE

2023

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of China Ludao Technology Company Limited (the "Company" and together with its subsidiaries, the "Group"), I would like to present to the shareholders of the Company the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016 (the "Reporting Period").

During the Reporting Period, the global economy continued to slow down with generally weaker-than-expected growth figures and considerable risks and headwinds. Against such complicated economic backdrop, the Group strove to maintain its global competitiveness and recorded continued growth in orders from overseas customers, adding the Group's confidence to sustain such positive momentum. The economy of the People's Republic of China (the "PRC") is expanding at a steady yet slower pace, with GDP growth edging down to 6.7%. Its outlook remains challenging with a build-up of domestic and external concerns and rising risks. However, as one of the few leading manufacturers of aerosol products in the PRC, we have numerous well-known brand products (including "Green Island", "Ludao", "JIERJIA" and "EAGLEIN KING"), high-capacity production lines, leading capabilities of scientific and technology innovation, extensive domestic distribution channels and talent-oriented strategies. We are cautiously optimistic towards our outlook in the domestic market and OBM business.

The global economic outlook in 2017 is still doubtfully optimistic, clouded by potential downward revision to global economic growth, heightened vulnerabilities in financial markets, rising resentment towards globalisation, the policy adjustments of new US administration, the political conflicts in Europe, the refugee crisis and the Brexit-related developments. The PRC economy is facing both challenges and opportunities with continuing progress in supply-side reforms, consumption expansion with a focus on improving people's wellbeing, and innovation-driven upgrading. The Group will continue to provide integrated solution for the global aerosol industry and offer better services to customers by leveraging on its established research and development capability, cost control and superior production capability.

Lastly, on behalf of the Board, I would like to express my sincere appreciation to the management team and staff of the Group for their dedicated contribution and also extend my gratitude to all our shareholders for their continuous support in this challenging year. We expect the year ahead to be full of opportunities and challenges. As always, we will continue to forge ahead to create greater value for our shareholders and investors.

Yu Yuerong
Chairman and Executive Director

Hong Kong, 23 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

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

Our OBM business by offering products under our own brand names of "Green Island", "Ludao"("綠島"), "JIERJIA"("吉爾佳") and "EAGLEIN KING"("鷹王"), mainly through a network of distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC.

Despite 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. Apart from unwavering efforts in 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 revenue 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

Revenue

CMS

For the Reporting Period, the revenue 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.

Management Discussion and Analysis

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 also continue to explore and develop new overseas market and maintain high products quality with competitive prices in order to strengthen its CMS business in the upcoming financial year.

OBM

The revenue 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 expense, the administrative expenses dropped significantly as compared to 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.

Prepayment & deposits

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Prepayment to suppliers of raw materials	**29,416**	17,587
Deposits for price-locking agreements	**28,000**	22,900
Other prepayments & deposits	**4,658**	1,787
	62,074	42,274

Of the RMB29.4 million prepayment of raw materials, the Company had made RMB21.5 million prepayment to 4 different major suppliers.

Deposits for price-locking agreements had increased to RMB28.0 million as the price of tinplate aerosol cans had rised up due to the increase in the price of tinplate and as such, a higher deposit for the price-locking agreement was negotiated.

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

FINAL DIVIDEND

The Board resolved not to recommend 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.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB161.7 million (2015: RMB156.2 million). This includes the Company's share premium account of approximately RMB149.9 million as at 31 December 2016 (2015: RMB149.9 million), which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

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).

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.

Management Discussion and Analysis

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group invested RMB0.4 million, RMB10.1 million, RMB 5.4 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	59	55	4

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 report.

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

The global economic growth situation is still not optimistic as the global economy is 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 costs 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.

Corporate Governance Report

The Board is pleased to present this corporate governance report (the "Corporate Governance Report") for the year ended 31 December 2016.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and transparency and accountability of all operations. The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable effort to identify and formulate corporate governance practices which are suitable for the Company's needs.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except code provision A.2.1 which is explained in relevant paragraph in this report.

THE BOARD

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

Roles and Responsibilities of Directors

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

The primary objective of the Board is to maximise the profit of the Company and to enhance long term value of the Company for the shareholders. To this end, the Board assumes the responsibilities for leadership and control of the Company and oversees the businesses, strategic development, financial performance and corporate governance of the Group.

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

Board Composition

The Board currently comprises of four executive directors and three independent non-executive directors. The list of Directors and their biographies are set out under the section of "Corporate Information" and "Biographies of Directors and Senior Management" on page 2 and page 24 respectively. Save as disclosed in the section of "Biographies of Directors and Senior Management", the Directors have no other relationship with one another. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

As at 31 December 2016, the Board comprises of three independent non-executive Directors which is in compliance with Rule 3.10(1) of the Listing Rules that every board of directors of a listed issuer must include at least three independent non-executive Directors and representing more than one-third of the Board, which is in compliance with Rule 3.10A of the Listing Rules. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise. The independent non-executive Directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business which is in compliance with Rule 3.10(2) of the Listing Rules. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought to the Board's deliberations and that such views and judgement carry weight in the Board's decision making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements.

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

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

Corporate Governance Report

Functions and Duties of the Board

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

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

(ii) Deciding business plans and investment plans;

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

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

(v) Determining the policies for corporate governance practices.

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

Appointment, Re-election and Removal of Directors

The Company has adopted "Directors Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. The procedures and process of appointment, re-election and removal of Directors are laid out in the Company's Articles of Association (the "Articles"). According to Rule 108(a) of the Articles, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting ("AGM"). Pursuant to Rule 112 of the Articles, any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next AGM. All Directors are appointed for a specific term.

In accordance with the Articles, Mr. Chan Yin Tsung, Ms. Cho Mei Ting and Mr. Ruan Lianfa shall retire from office and, being eligible, offer themselves for re-election at the forthcoming 2016 AGM of the Company. The Board and the nomination committee (the "Nomination Committee") recommend their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above three Directors as required by the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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 as Mr. Yu has considerable 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 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.

DIRECTORS' TRAINING

All newly appointed board members have received an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements. All Directors confirmed that they had complied with CG Code provision A.6.5 during the Reporting Period. All Directors had participated in continuous professional development regarding the Listing Rules and other applicable regulatory requirements on an ongoing basic to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2016, all Directors have participated in continuous professional development by attending training course, meeting and/or reading reference materials on the topics related to update corporate governance and regulations and updates of accounting standards.

CORPORATE GOVERNANCE FUNCTIONS

The Board delegated the corporate governance functions to the compliance adviser, P.B Advisory Limited. The compliance adviser is responsible for the corporate governance duties as follows: (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

BOARD DIVERSITY POLICY

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

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

Board Meetings

Appropriate notices were given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are normally provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

The company secretary of the Company (the "Company secretary") is responsible for keeping minutes of all Board meeting and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable period of time after each meeting and the final version is opened for all Directors' inspection.

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

Pursuant to CG Code provision A.1.1, the Board should meet regularly and Board meetings should be held at least four times a year. During the Reporting Period, there were five Board meetings held.

BOARD COMMITTEES

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

AUDIT COMMITTEE

The Company established the Audit Committee on 16 September 2013 with written terms of reference in compliance with 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 report.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on 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, responsibility 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 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.

The remuneration of the senior management for the years ended 31 December 2016 and 2015 are set out in note 37 to the consolidated financial statements.

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 comprises of four members, being three 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 structure, size, composition and diversity of the Board and made recommendations to the Board in accordance with the Nomination Committee's written terms of reference.

DIRECTORS' ATTENDANCE

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

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

Notes:

1. Chairman of the Company
2. Ms. Wang Jinfei resigned on 26 January 2017
3. Mr. Chan Yin Tsung appointed on 1 November 2016
4. Chairman of the Audit Committee and the Remuneration Committee
5. Chairlady of the Nomination Committee
6. Mr. Wong Chi Wai resigned on 1 November 2016

COMPANY SECRETARY

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

The Company Secretary reports to the chairman and chief executive officer, plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the Listing Rules. On 13 January 2017, Mr. Li Wai See ("Mr. Li") has resigned as the Company Secretary and Mr. Ho Ka Wai ("Mr. Ho") has been appointed to replace Mr. Li as the Company Secretary on the same day. The biographical details of Mr. Ho are set out in the section headed "Biographies of Directors and Senior Management of this report.

During the Reporting Period, both Mr. Li and Mr. Ho took not less than 15 hours of relevant professional training to update his skills and knowledge as required under Rule 3.29 of the Listing Rules.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view and that relevant statutory requirements and applicable accounting standards are complied with.

EXTERNAL INDEPENDENT AUDITOR'S REMUNERATION

The Company engaged PricewaterhouseCoopers as its external independent auditor for the year ended 31 December 2016. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. During the year ended 31 December 2016, the fee payable to PricewaterhouseCoopers in respect of its statutory audit services and non-audit service provided to the Company were approximately RMB1.4 million and RMB54,000 respectively (2015: RMB1.4 million and RMB48,000).

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems of the Group, the systems includes a defined management structure with limited authority and designed to achieve business objectives, safeguarding assets against unauthorised use or disposition, ensuring the maintenance of reliable financial and accounting records and compliance of applicable laws, rules and regulation and key risks that may impact the Group performance.

Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against materials misstatement or loss.

The objectives of the risk management and internal control systems of the Group are to identify and manage the risk of the Group within acceptable safety levels and to achieve the objectives of the Group. The Group adopted three level of risk management process to identify, analysis and evaluate and manage material risks. The first level is to ensure all department head to understand their roles and responsibilities to identify, analysis and evaluate and monitor the risk associated with the operation and/or transaction they responsible for. The second level is the management of the Group that oversight the risk management activities of the first level and providing ongoing monitoring to the first level and report issue to upper level. The final level is the Audit Committee, with the advices from the management from the second level and opinions and findings from external auditor and performing regular review, ensures the effectiveness of the Group's risk management and internal control systems.

The Audit Committee conducted regular reviews on the effectiveness of the Group's risk management and internal control systems on behalf of the Board during the Reporting Period, which covers all material controls, including financial, operational and compliance controls as well as risk management functions. The management has provided a confirmation to the Audit Committee on the effectiveness of these systems during the year ended 31 December 2016.

The Company engaged KL CPA Limited to conduct internal control review of the Group for the year ended 31 December 2016. The internal control review report listed out certain findings of the minor weaknesses identified regarding the relevant cycles and procedures with recommendations proposed for the Company to further improve its internal control system. No significant deficiency was identified during the review and the result from the internal control review report has been reported to the Board and the Audit Committee and areas of improvement, if any, have been identified and appropriate measures have been put in place to manage the risks. The Board and the Audit Committee considered the risk management and internal control systems are effective.

The Company has formulated policies on handing and dissemination of inside information and regularly reminded the Directors and employees of the Group to comply with relevant policies. Such policies are subject to review on a regular basis.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

- maintained frequent contacts with shareholders and investors through various channels such as meetings, telephone and emails;

- regularly updated the Company's news and developments through the investor relations section of the Company's website;

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yu Yuerong (虞岳榮), aged 49, was appointed as the chairman and executive Director of the Company on 16 September 2013. He is also a member of the Remuneration Committee and Nomination Committee. Mr. Yu is the founder of the Group and is primarily responsible for the overall strategic planning and corporate policy making for the operational direction of the Group. Mr. Yu obtained a bachelor's degree in Business Administration from the Open University of China* (中央廣播電視大學) via distance learning in April 2000, and graduated from a Finance and Commerce Programme for Senior Director* (工商管理高級總裁研修班) conducted by Continuing Education of Zhejiang University* (浙江大學繼續教育學院) in 2008. Mr. Yu has over 20 years of extensive experience in PRC's factory operation and corporate management. Prior to joining the Group, Mr. Yu has worked in the capacity of manager and chairman respectively for Taizhou Yizhou Industrial Company* (台州一洲工業公司) from June 1992 to February 1998 and Zhejiang Huangyan Yizhou Group Limited* (浙江黃岩一洲集團有限公司) from March 1998 to August 2003, both of which are engaged in the production of daily-use chemical products, and Mr. Yu was responsible for managing the overall manufacturing operation of the factories.

Mr. Chen Baoyuan (陳寶元), aged 44, was appointed as an executive Director of the Company on 1 August 2015. Mr. Chen joined the Group in November 2014 and is currently the chief financial officer of the Group. He is primarily responsible for overseeing the financial and accounting operations of the Group and supervising the internal control of the Group. Mr. Chen is a Certified Tax Agent in the PRC and has 20 years' experience in finance and accounting. Prior to joining the Group, he acted as the financial supervisor of the group financial center, the financial manager and the deputy financial officer in a subsidiary of GOME Electrical Appliances, a company listed on the Stock Exchange (stock code: 0493) successively. He also served as a financial manager and chief financial officer for several private companies. Mr. Chen graduated from Nanjing Dynamic College* (南京動力高等專科學校) in July 1995, majoring in computerized accounting and then graduated from Flinders University of South Australia with Master of Arts in International Relations in Economy and Trade in October 2012.

Ms. Pan Yili (潘伊莉), aged 41, was appointed as an executive Director of the Company on 16 September 2013. Ms. Pan has over 10 years of corporate marketing and management experience. Ms. Pan joined the Group in 2003 and is primarily responsible for formulating overall business strategies and market development of the Group. She obtained a graduate certificate in Chemical Engineering in June 1993 from Vocational School of Huangyan* (黃岩市職業技術學校). Ms. Pan received a bachelor's degree in Business Administration from the Open University of China* (中央廣播電視大學) via distance learning in January 2012. Prior to joining the Group, Ms. Pan has worked in the capacity of strategic planner for Taizhou Yizhou Industrial Company* (台州一洲工業公司) from January 1997 to December 1998 and Zhejiang Huangyan Yizhou Group Limited* (浙江黃岩一洲集團有限公司) from January 1999 to February 2003, both of which are engaged in the production of daily-use chemical products where she was responsible for liaison and finance work respectively.

EXECUTIVE DIRECTORS *(Continued)*

Mr. Wang Xiaobing（王小兵）, aged 43, was appointed as an executive Director of the Company on 16 May 2014. Mr. Wang joined the Group in 2010 as the head of research and development department and was primarily responsible for overseeing the research and development centre and monitoring the quality control of the Group. He is currently the general manager of Zhejiang Ludao Technology Co., Ltd. ("Ludao PRC") and primarily responsible for the overall operation management. Prior to joining the Group, Mr. Wang had worked for a subsidiary of China Flavors and Fragrances Company Limited (the shares of which are listed on the Stock Exchange of Hong Kong Limited (stock code: 3318)) in various capacity including engineer, technical manager and general supervisor of the department for daily-use fragrance and flavors. He has professional and managerial experiences in research and development on daily chemical products and technical communication and services. Mr. Wang studied applied chemistry and graduated from the Nanchang Vocational Technology Normal University*（南昌職業技術師範學院）in July 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cho Mei Ting（曹美婷）, aged 54, was appointed as an independent non-executive Director of the Company on 16 September 2013. She is also the chairlady of the Nomination Committee and the member of Audit Committee and Remuneration Committee. Ms. Cho holds a bachelor's degree in Arts from The University of Hong Kong in November 1986 and a bachelor's degree in laws from Manchester Metropolitan University in September 2000. Ms. Cho further obtained a postgraduate certificate in laws from The University of Hong Kong in June 2001. She is a qualified solicitor and has been practicing law in Hong Kong since 2003. She had worked for several solicitor firms during 2004 to 2010. Ms. Cho is currently the sole proprietor of Messrs. Cho Mei Ting & Co., Solicitors which was founded by her in 2010.

Mr. Ruan Lianfa（阮連法）, aged 63, was appointed as an independent non-executive Director of the Company on 16 September 2013. He is also a member of Audit Committee, Remuneration Committee and Nomination Committee. Mr. Ruan holds both bachelor degree in Civil Engineering and a master degree in Management from Zhejiang University*（浙江大學）in February 1980 and April 1996 respectively. Since his graduation in 1980, Mr. Ruan has served as a lecturer and a researcher in Zhejiang University*（浙江大學）, head of the Civil Engineering Management Research Institute*（土木工程管理研究所所長）of Zhejiang University*（浙江大學）and the dean of Continuing Education of Zhejiang University*（浙江大學繼續教育學院院長）.

Mr. Chan Yin Tsung（陳彥璁）, aged 37, was appointed as an independent non-executive Director, chairman of the Audit Committee and Remuneration Committee and the member of Nomination Committee of the Company on 1 November 2016. He is a Certified Public Accountant certified under the American Institute of Certified Public Accountants. He holds a bachelor degree in commerce from the University of British Columbia and a master degree in financial analysis from The Hong Kong University of Science and Technology.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Chan has over 14 years of experience in initial public offering, corporate merger and acquisitions, restructuring, due diligence, audit, financial modeling and business valuation. From 2003 to 2010, he held various positions in Ernst & Young, KPMG Transaction Advisory Services and PricewaterhouseCoopers Corporate Finance, providing transaction advisory and audit services in China and Hong Kong to various corporations. Mr. Chan joined the investment banking division of Essence International Financial Holdings Limited in October 2010 where he focused on advising clients in initial public offering. In August 2011, Mr. Chan joined the private equity department of the same company as a senior manager and he was responsible for investment projects' origination, analysis and execution. From July 2012 to July 2013, Mr. Chan was appointed as an executive director of Green International Holdings Limited (a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 2700)). Mr. Chan joined Hao Wen Holdings Limited (a company whose shares are listed on the GEM of the Stock Exchange (stock code: 8019)) as the chief executive officer and the compliance officer of its group during the period from February 2014 to May 2016 and from February 2014 to January 2016 respectively. In September 2014, Mr. Chan was appointed as the independent non-executive director, the chairman of audit committee and nomination committee, and a member of remuneration committee of Zhidao International (Holdings) Limited (a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1220)). In December 2016, Mr. Chan was appointed as the independent non-executive director and the chairman of the audit committee of Beijing Jingneng Clean Energy Co., Limited (a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 579)).

COMPANY SECRETARY

Mr. Ho Ka Wai（何嘉偉）, aged 34, was appointed as the Company Secretary and authorised representative of the Company on 13 January 2017. Mr. Ho holds a bachelor degree of Bachelor of Business Administration from the Lingnan University. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has over 10 years of experience in accounting and auditing.

SENIOR MANAGEMENT

Mr. Wang Yongfei（王永飛）, aged 41, is the chief production officer of Ludao PRC and joined the Group in 2003. Mr. Wang is primarily responsible for overseeing the production operation of the Group. Mr. Wang has over 20 years of extensive experience in factory production management. Prior to joining the Group, Mr. Wang was a production supervisor of a manufacturer from 1995 to 2001 in the PRC that is engaged in the production of daily-use chemical products and Mr. Wang was responsible for the management of the manufacturing operation.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

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

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

Environmental Policy

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

1. Implementing internal procedures to prevent and manage pollution (ISO 14001).

2. Committing to fulfil and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.

The Group conducts regular testing in relation to air, noise and waste water emitted or produced to ensure that our pollution levels are within the allowed levels as stipulated in the relevant PRC laws and regulations. In addition, the Group also encourages staff to save electricity and recycle office supplies to minimise our environment impact.

Environmental, Social and Governance Report

Staff

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

Working environment

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

Employee training and development

In order to enable staff to keep abreast of the aerosol industry and maintain high-quality organization structure, the Group offers various training programs, and earmarks funds for staff training each year. In addition, the Group has established a comprehensive training system and mechanism to provide on-job teaching and training for its employees with a view to enhancing skills and management capabilities of the staff to offer smooth promotion channels. Based on analysis of the development needs, the management of the Group keeps ongoing selection of outstanding candidates for priority training through various methods such as internal aptitude tests, on job training and examinations and seniors' recommendations. During the Reporting Period, the Group provided over 8,000 hours of internal and external training to its employees.

Labour standards

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

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

Supply Chain Management

The Group has implemented a strict selection process on its suppliers, taking into consideration such elements as supplier qualification, business reputation, past performance and price. The Group closely monitor and perform regular review on the performance of its suppliers to ensure the product quality. For those products not meet the product quality and safety requirement will be specifically distinguished and handled to avoid misuse and delivery.

Product Responsibility

The Group continuous improve the product quality to pursue customer satisfactory of our products and established quality management system on our products (ISO9001:2008) In addition, all products produced by the Group undergo relevant safety tests with appropriate safety labels affixed on packaging. During the Reporting Period, none of the product sold was subject to recall due to quality and/or safety problem.

Anti-corruption

The Group is committed to prevent and monitor any malpractice or unethical actions. The Group has established stringent policies for anti-corruption and anti-fraud, which were communicated to the employees so as to provide them a whistle blowing channel for reporting any suspected misappropriate actions to the Board. During the Reporting Period, the Group did not suffer any corruption related litigation cases.

Community Involvement

The Group is committed to contribute to the society and make its own efforts in the development of the community. During the Reporting Period, the management and the employees of the Group participated in assisting and supporting the local community.

Directors' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2016.

GROUP REORGANISATION

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

During the year ended 31 December 2016, there was no group reorganisation.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group is principally engaged in the research and development, manufacture and sale of aerosol and related products in the PRC. Details of principal activities of the principal subsidiaries are set out in note 1 to the audited consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Period. An analysis of the Group's performance for the Reporting Period by geographical segment is set out in note 5 to the audited consolidated financial statements.

BUSINESS REVIEW

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

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 48.

The Board resolved not to recommend any final dividend for the year ended 31 December 2016.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years is set out on page 110 of this annual report. This summary does not form part of the audited consolidated financial statements.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 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 AGM 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.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 24 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity of this report and note 36 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB161.7 million (2015: RMB156.2 million). This includes the Company's share premium account of approximately RMB149.9 million as at 31 December 2016 (2015: RMB149.9 million), which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR SUPPLIERS AND CUSTOMERS

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

	2016	2015
	%	%
Sales		
– the largest customer	**20.8**	26.8
– five largest customers combined	**61.4**	64.0
Purchases		
– the largest supplier	**28.5**	31.2
– five largest suppliers combined	**51.8**	59.4

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors in office during the year and up to the date of this report were:

Executive Directors
Mr. Yu Yuerong *(Chairman)*
Mr. Chen Baoyuan
Ms. Pan Yili
Ms. Wang Jinfei (resigned on 26 January 2017)
Mr. Wang Xiaobing

Independent non-executive Directors
Mr. Chan Yin Tsung (appointed on 1 November 2016)
Ms. Cho Mei Ting
Mr. Ruan Lianfa
Mr. Wong Chi Wai (resigned on 1 November 2016)

The resignation of the resigned Directors was due to their personal commitment. Each of the resigned Directors had confirmed to the Board that they had no disagreement with the Board and that they were not aware of any matters in relation to their resignation that needed to be brought to the attention of the shareholders of the Company.

Pursuant to Rule 112 of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed shall hold office only until the next general meeting of the Company (in the case of filling a casual vacancy) or until the next following AGM of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the next following AGM. Mr. Chan Yin Tsung who was appointed as an independent non-executive director by the Board effective on 1 November 2016, shall retires from office and, being eligible, offers himself for re-election at the forthcoming AGM.

Pursuant to Rule 108(a) of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Ms. Cho Mei Ting and Mr. Ruan Lianfa shall therefore be retired at the forthcoming AGM by rotation and, being eligible, offer themselves for re-election.

In compliance of Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors, representing more than one-third of the Board.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming AGM entered into any service contract has with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and 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 or a controlling shareholder of the Company had a material interest, either directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period and there were no transactions, arrangement or contracts of significance for the provision of services to the Group by the controlling shareholder of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

Each of Mr. Yu and Ludao China Investments Holdings Limited ("Ludao Investments") (together the "Controlling Shareholders"), had entered into a deed of non-competition dated 16 September 2013 (the "Deed of Non-competition") in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/its associates not to (other than through the Group or in respect of each covenanter (together with his/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by the Group from time to time, except where the Company's approval is obtained.

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

MANAGEMENT CONTRACTS

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

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 opened for the business of dealing in securities (a "Trading Day"); (ii) an amount equivalent to the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 Trading Days immediately preceding the offer date of the relevant option; and (iii) the nominal value of a Share on the offer date.

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

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

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

SHARE OPTION SCHEME *(Continued)*

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

Name of grantees	Number of share options: Outstanding as at 1 January 2016	Granted during the period	Forfeited/ Cancelled during the period	Exercised during the period	Outstanding as at 31 December 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* *(Note)*	Exercise price of the share options *per share*
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 (resigned on 26 January 2017)	3,500,000	–	–	–	3,500,000	29/6/2015	29/6/2015 – 28/6/2017	2.24	2.26
Wang Xiaobing	4,000,000	–	–	–	4,000,000	29/6/2015	29/6/2015 – 28/6/2017	2.24	2.26
Sub-total	14,500,000	–	–	–	14,500,000				
Senior Management									
Wang Yongfei	4,000,000	–	–	–	4,000,000	29/6/2015	29/6/2015 – 28/6/2017	2.24	2.26
Sub-total	4,000,000	–	–	–	4,000,000				
Others									
Employees	14,000,000	–	–	–	14,000,000	29/6/2015	29/6/2015 – 28/6/2017	2.24	2.26
Supplier	3,500,000	–	–	–	3,500,000	29/6/2015	29/6/2015 – 28/6/2017	2.24	2.26
Other eligible participant	4,000,000	–	–	–	4,000,000	29/6/2015	29/6/2015 – 28/6/2017	2.24	2.26
Sub-total	21,500,000	–	–	–	21,500,000				
Total	40,000,000	–	–	–	40,000,000				

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

As at 31 December 2016 to the date of this report, the Company does not have any share options outstanding for issue under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR THE ASSOCIATED CORPORATIONS

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

Long position in shares and underlying shares of the Company

	Number of Ordinary Shares		Interests in underlying shares		
Name of Directors	Personal interests/ Interest of spouse	Interests of a controlled corporation	Share options *(Note 1)*	Total	Approximate percentage of interests in the Company *(Note 2)*
Mr. Yu	–	222,260,000 *(Note 3)*	3,500,000 *(Note 4)*	225,760,000	47.03%
Ms. Wang Jinfei ("Mrs. Yu")	222,260,000 *(Note 3)*	–	3,500,000	225,760,000	47.03%
Chen Baoyuan	600,000	–	4,000,000	4,600,000	0.96%
Ms. Pan Yili	–	–	3,000,000	3,000,000	0.63%
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 above section headed "Share Option Scheme".

(2) These percentages have been complied based on the total number of issued shares (i.e. 480,000,000 shares) of the Company as at 31 December 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.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company, nor their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2016, the following persons or corporations (other than a Director or chief executive of the Company), other than those disclosed in the paragraph headed "Directors' and Chief Executives' Interest in Securities", had notified the Company of its interests and/or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept under Section 336 of the SFO:

Long position in the shares and underlying shares of the Company

Name of shareholders	Capacity/Nature of interests	Total number of ordinary shares and underlying shares *(Note 1)*	Approximate percentage of interests in the Company *(Note 2)*
Ludao Investments *(Note 3)*	Beneficial owner	222,260,000	46.30%

Notes:

(1) All the interests represent long positions.

(2) These percentages have been complied based on the total number of issued shares of the Company (i.e. 480,000,000 shares) as at 31 December 2016.

(3) Ludao Investments is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Yu, the chairman and the executive Director of the Company. Mrs. Yu, being 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, so far as is known to the Directors of the Company, no other person (other than the Directors and chief executive of the Company) had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which were or required to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or required to be recorded in the register required under section 336 of the SFO as at 31 December 2016.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report under Rule 8.08 of the Listing Rules.

CORPORATE GOVERNANCE

The Board is of the opinion that the Company had complied with the CG Code throughout the Reporting Period, as set out in Appendix 14 of the Listing Rules, save for the deviation as disclosed in Corporate Governance Report from pages 12 to 23, which provide further information on the Company's corporate governance practices.

PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and officers arising out of corporate activities. The level of the coverage is reviewed annually. The permitted indemnity provision is in force for the benefit of the Directors on the date that the Directors approved this Directors' Report.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares during the year or subsisted during the year.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 31 December 2016 till the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers. A resolution for the reappointment of PricewaterhouseCoopers as the Company's independent auditor and authorising the Board to fix its remuneration will be proposed at the forthcoming AGM of the Company.

By order of the Board

Yu Yuerong
Chairman

Hong Kong, 23 March 2017

Independent Auditor's Report

pwc

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of China Ludao Technology Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 109, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

INDEPENDENCE

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is set out below:

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables Refer to note 4 (Critical accounting estimates and judgements) and note 20 (Trade and other receivables) to the consolidated financial statements. The Group's sales were mainly made to several major customers and there was a concentration of credit risk. As at 31 December 2016, gross trade receivables balance amounted to RMB88,640,000 and the top five customers accounted for 78% of the balance. The remaining balances spread among a large number of customers. We focus on this area as the balance of trade receivables was material to the consolidated financial statements and the determination of provision for impairment of the balance required significant judgements and estimates by management.	We have performed the following procedures to assess the recoverability of trade receivables: – We understood and evaluated the Group's internal control over granting credit to customers and collection of trade receivables. – We requested trade receivables balance confirmations from selected customers. All customers we requested have replied to our confirmation. – We checked the accuracy of the aging profile of the trade receivables based on which management assessed recoverability. – Where cash had not been received subsequent to year end date from the customers, we discussed with management to seek explanations for balances remained outstanding. We challenged management as to the recoverability of the unsettled amounts, corroborating explanations with underlying documentation and correspondence with the customers. Based on the above, we found management's judgements and estimates in respect of the recoverability of trade receivables were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Siu Cheong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
		Year ended 31 December	
Revenue	6	**274,232**	266,010
Cost of sales	7	**(196,990)**	(200,275)
Gross profit		**77,242**	65,735
Other income	6	**559**	1,713
Other gains	6	**3,849**	3,496
Selling expenses	7	**(21,612)**	(18,543)
Administrative expenses	7	**(35,817)**	(46,391)
Operating profit		**24,221**	6,010
Finance income	9	**3,626**	2,930
Finance costs	9	**(69)**	(1,124)
Finance income – net		**3,557**	1,806
Profit before income tax		**27,778**	7,816
Income tax expense	11	**(4,496)**	(4,249)
Profit for the year		**23,282**	3,567
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**260**	2,154
Total comprehensive income for the year attributable to the owners of the Company		**23,542**	5,721
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	12	**0.05**	*0.01*

The notes on pages 53 to 109 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	13	**5,310**	4,999
Property, plant and equipment	14	**89,609**	85,836
Investment property	15	**6,400**	–
Intangible assets	17	**466**	539
Deferred income tax assets	30	**372**	394
Prepayment for property, plant and equipment		**3,917**	5,345
		106,074	97,113
Current assets			
Inventories	19	**37,723**	35,037
Trade and other receivables	20	**154,055**	140,941
Financial assets at fair-value through profit or loss	21	**19,240**	–
Cash and cash equivalents	22	**25,851**	120,819
Short-term bank deposits	22	**81,100**	–
Pledged bank deposits	23	**14,371**	18,711
		332,340	315,508
Total assets		**438,414**	412,621
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	24	**3,801**	3,801
Share premium	24	**134,143**	134,143
Other reserves	25	**78,303**	75,235
Retained earnings		**119,406**	98,932
Total equity		**335,653**	312,111

Consolidated Balance Sheet

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
		As at 31 December	
LIABILITIES			
Non-current liabilities			
Deferred government grants	*27*	**1,010**	1,155
Bank borrowings	*29*	**1,284**	–
Deferred income tax liabilities	*30*	**152**	–
		2,446	1,155
Current liabilities			
Trade and other payables	*28*	**99,230**	98,750
Current income tax liabilities		**178**	605
Bank borrowings	*29*	**907**	–
		100,315	99,355
Total liabilities		**102,761**	100,510
Total equity and liabilities		**438,414**	412,621

The notes on pages 53 to 109 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 48 to 109 were approved by the Board of Directors on 23 March 2017 and were signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital *RMB'000*	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					
Profit for the year	–	–	–	3,567	3,567
Currency translation differences	–	–	2,154	–	2,154
Total comprehensive income	–	–	2,154	3,567	5,721
Transaction with owners					
Share option scheme					
– Value of employee services	–	–	17,022	–	17,022
– Value of other services	–	–	3,906	–	3,906
Share placing	631	81,990	–	–	82,621
Profit appropriation	–	–	1,460	(1,460)	–
Balance at 31 December 2015	3,801	134,143	75,235	98,932	312,111
Balance at 1 January 2016	**3,801**	**134,143**	**75,235**	**98,932**	**312,111**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**23,282**	**23,282**
Currency translation differences	**–**	**–**	**260**	**–**	**260**
Total comprehensive income	**–**	**–**	**260**	**23,282**	**23,542**
Transaction with owners					
Profit appropriation	**–**	**–**	**2,808**	**(2,808)**	**–**
Balance at 31 December 2016	**3,801**	**134,143**	**78,303**	**119,406**	**335,653**

The notes on pages 53 to 109 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	*33*	**12,830**	73,031
Interest paid		**(69)**	(1,124)
Income tax paid		**(4,750)**	(5,297)
Net cash generated from operating activities		**8,011**	66,610
Cash flows from investing activities			
Purchase of property, plant and equipment		**(7,750)**	(17,578)
Prepayment for property, plant and equipment		**(1,082)**	(2,144)
Proceeds from disposals of property, plant and equipment	*33*	**97**	–
Purchase of land use rights		**(430)**	–
Purchase of intangible assets		**(128)**	(5)
Purchase of investment properties		**(5,372)**	–
Purchase of financial assets at fair value through profit or loss		**(19,240)**	–
Decrease/(increase) of pledged bank deposits		**4,340**	(6,729)
Increase of short-term bank deposits		**(81,100)**	–
Interest received		**1,209**	589
Net cash used in from investing activities		**(109,456)**	(25,867)
Cash flows from financing activities			
Issue of shares – Net of issue cost		**–**	82,621
Proceeds from bank borrowings		**2,191**	11,138
Repayments of bank borrowings		**–**	(40,138)
Proceeds from notes payable		**114,670**	125,699
Repayments of notes payable		**(110,535)**	(126,968)
Net cash generated from financing activities		**6,326**	52,352
Net (decrease)/increase in cash and cash equivalents		**(95,119)**	93,095
Cash and cash equivalents at beginning of the year	*22*	**120,819**	26,821
Currency translation differences		**151**	903
Cash and cash equivalents at end of the year	*22*	**25,851**	120,819

The notes on pages 53 to 109 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

China Ludao Technology Company Limited (the "Company") was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of aerosol products for household and auto care, air fresheners, personal care products and insecticides. The ultimate holding company of the Company is Ludao China Investments Holdings Limited ("Ludao Investments") which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), who has an effective 46.30% interest in the Company.

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Change in accounting policy and disclosure

(a) The new or revised standards, amendments and interpretations to existing standards, which are mandatory for the financial year beginning on 1 January 2016, are either currently not relevant to the Group or had no material impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 *Change in accounting policy and disclosure*

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

		Effective for accounting periods beginning on or after
HKAS 12(amendments)	Income taxes	1 January 2017
HKAS 7(amendments)	Statement of cash flows	1 January 2017
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 And HKAS 28 (amendments)	Sales or contribution of assets between an investor and its associate or joint venture	1 January 2016 *(Note)*

The Group did not early adopt any of these new or revised standards, amendments and interpretation to existing standards. Management has assessed the impact of these new and amended standards effective for accounting period beginning 1 January 2017 and is in the view that the impact is not significant. Management is currently assessing the financial impact of other revisions to the Group's financial position and performance.

Note: The amendments were originally intended to be effective for annual period beginning on or after 1 January. The effective date has now been deferred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Merger accounting for Reorganisation

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Subsidiaries

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

The Group applies the acquisition method to account for non-common control business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains unless the the transaction provides evidence of an impairment of the transferred asset on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

2.2.3 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Hong Kong Dollars ("HK$"). The consolidated financial statements are presented in RMB which is the Group's presentation currency, as the Group's business is mainly carried out in the PRC and transacted in RMB.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

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

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated statement of comprehensive income over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and stated at cost. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Depreciation is not provided on construction in progress until the related asset is completed for intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Plant and machinery	10-15 years
Office furniture and equipment	3-10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses)' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the statement of profit or loss as part of a valuation gain or loss in 'other gains/(losses)'.

2.8 Intangible assets

Intangible assets represent the computer software and patents. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Amortisation is calculated using the straight-line basis to allocate the cost of the computer software and patents over their estimated useful lives of 10 years and 5 years respectively.

2.9 Research and development expenditure

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

– it is technically feasible to complete the intangible asset so that it will be available for use;

– management intends to complete the intangible asset and use or sell it;

– there is an ability to use or sell the intangible asset;

– it can be demonstrated how the intangible asset will generate probable future economic benefits;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Research and development expenditure *(Continued)*

– adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

– the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairments. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets

The Group classifies its financial assets as: (i) financial assets at fair value through profit or loss; and (ii) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those that are not expected to be realised within the normal operating cycle of the business. These are classified as non-current assets. Loans and receivables comprise trade and other receivables, bank deposits and cash and cash equivalents.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

(c) *Impairment of financial assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excluded borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Share Capital

Ordinary shares are classified as equity.

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

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 2.11 for further information about the Group's accounting for trade receivables and description of the Group's impairment policies.

2.15 Cash and cash equivalents

In the consolidated cash flow statements, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investment with original maturities of three months or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Borrowing Costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.20 Current and deferred income tax

The tax expense for the period comprised current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

2.22 Share based payments

(a) Equity-settled share-based payment transactions

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Share based payments *(Continued)*

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

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Share based payments *(Continued)*

(b) Share-based payment transactions among group entities

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

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to sale have been resolved. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customers, the customer has accepted the products and collectability of the related receivables is reasonably assured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

(b) Interest income

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

2.24 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in investment properties in the consolidated balance sheet. Rental income from operating lease is recognized over the term of the lease on a straight-line basis.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by designated directors under policies approved by the board of directors. These directors identify, evaluate and hedge financial risks in close cooperation within the Group operating units.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. The Group is subject to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than RMB. The Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies and the remittance of funds are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk (Continued)

Major foreign currencies of Group are Hong Kong dollars ("HKD") and United Stated dollars ("USD"). The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Assets		
HKD and USD	**75,960**	91,718
Liabilities		
HKD and USD	**1,954**	3,771

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
5% appreciation in exchange rate against HKD and USD		
Decrease in the profit for the year	**3,700**	4,397

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Price risk

The Group is not exposed to equity securities price risk or commodity price risk. The Group has not entered into any long term contracts with the suppliers but placed deposits when the prices were considered favourable. Fluctuations in the price of raw materials are usually passed on to customers.

(c) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term bank deposits, pledged bank deposits and trade and other receivables.

For cash and cash equivalents, short-term bank deposits and pledged bank deposits, the management managed the credit risk by placing all the bank deposits in state-owned financial institutions or reputable banks which were all high-credit-quality financial institutions.

To manage the credit risk in respect of trade and other receivables, the Group performed ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintained a provision for doubtful accounts and actual losses incurred have been within management's expectations.

As at 31 December 2016, the Group had certain concentration of credit risk as approximately 78% (2015: 76%) of the total trade receivables which were due from the Group's five largest customers.

(d) Liquidity risk

The Group has adequate cash and cash equivalents to finance its operating activities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and through having available sources of financing.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) ***Liquidity risk*** *(Continued)*

	Less than 3 months *RMB'000*	Between 3 months and 1 year *RMB'000*	Over 1 year *RMB'000*	Total *RMB'000*
As at 31 December 2016				
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers and etc.)	32,520	57,749	–	90,269
Bank borrowings	228	683	1,454	2,365
	32,748	58,432	1,454	92,634
As at 31 December 2015				
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers and etc.)	59,284	24,391	–	83,675

(e) ***Cash flow and fair value interest rate risk***

The Group's exposures to changes in interest rates are mainly attributable to its bank deposits and bank borrowings at variable interest rates. Bank deposits at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group does not hedge its fair value interest rate risk as management believes that the fair value interest rate risk does not have material impact to the Group as the discounting impact as a result of a shift of the fixed interest rate on the borrowings is not material.

As at 31 December 2016 and 2015, expected change in interest rates has no material impact on the interest income of pledged bank deposits, short-term bank deposits and cash and cash equivalents and interest expense of bank borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

The gearing were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank borrowings	**2,191**	–
Notes payable	**62,724**	58,590
	64,915	58,590
Total equity	**335,653**	312,111
Gearing ratio	**19%**	19%

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including pledged bank deposits, short-term bank deposits, cash and cash equivalents, trade and other receivables and trade and other payables approximate to their fair values as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments carried at fair value as at 31 December 2016 were financial assets at fair value through profit or loss (2015: Nil), which were included in level 2 (Note 18).

See Note 15 for disclosures of the investment property that is measured at fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Recoverability of trade receivables

The Group makes provision for impairment of trade receivables based on an assessment of the recoverability of trade receivables with reference to the extent and duration that the amounts will be recovered. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and doubtful debt expenses in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate the expected sales based on orders on hand and ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. Judgment is required in estimating the expected sales and thus the provision required. If conditions which have impact on the net realisable value of inventories deteriorate, additional provision may be required.

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets.

(d) Fair value of investment property

Significant judgement and assumptions are required in assessing the fair value of the investment property. Details of the judgement and assumptions are disclosed in note 15.

5 SEGMENT INFORMATION

The executive directors ("EDs") are chief operating decision-makers. EDs review the Group's internal reporting in order to assess performance and allocate resources. EDs have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and related products. The Group sells its products on contract manufacturing service basis to overseas markets and on original brand manufacturing basis in the PRC market. All products are manufactured under the same production lines and distributed through distributors network. EDs review and assess performance of the Group on a combined basis and management concluded that there is only one reportable operating segment.

5 SEGMENT INFORMATION *(Continued)*

Geographical information

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

Revenue from customers

	2016 *RMB'000*	2015 *RMB'000*
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 *RMB'000*	2015 *RMB'000*
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

6 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	2015
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**274,232**	266,010
Other income		
Government grants	**447**	475
Others	**112**	1,238
	559	1,713
Other gains		
Foreign exchange gain	**2,608**	2,650
Fair value gain on investment property	**1,028**	–
Others	**213**	846
	3,849	3,496

7 EXPENSES BY NATURE

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

	2016 RMB'000	2015 RMB'000
Depreciation and amortisation *(Note 13,14,17)*	**6,530**	5,386
Employee benefit expenses, excluding amount included in share option expense and research and development costs *(Note 8)*	**24,751**	19,913
Share option expense *(Note 26)*	**–**	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 *(Note 8)*	**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	**254,419**	265,209

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2016 RMB'000	2015 RMB'000
Wages, allowance and bonus	**25,616**	21,785
Retirement scheme contribution	**1,707**	1,237
Share options granted to directors and employees *(Note 26)*	**–**	17,022
Others	**1,897**	1,063
	29,220	41,107

(a) Pensions – defined contribution plans

Ludao PRC makes defined contribution to retirement schemes managed by local governments in the PRC based on 22% of the basic salary of eligible staff during the year ended 31 December 2016 (2015: 22%). It is the local governments' responsibility to pay the retirement pension to the staffs who retire.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2015: four) directors whose emoluments are reflected in the analysis in Note 37. The emoluments paid to the remaining one individual (2015: one) during the year are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**158**	151
Share based compensation	**–**	2,104
Retirement scheme contribution	**4**	4
	162	2,259

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals *(Continued)*

	Number of individuals	
	2016	2015
Emoluments bands		
Nil to HKD1,000,000	**1**	–
HKD2,500,000 to HKD3,000,000	**–**	1
	1	1

9 FINANCE INCOME – NET

	2016 *RMB'000*	2015 *RMB'000*
Foreign exchange gain on cash and cash equivalent	**2,417**	2,341
Interest income	**1,209**	589
Finance income	**3,626**	2,930
Interest expense from bank borrowings	**(69)**	(1,124)
Finance income – net	**3,557**	1,806

10 NET FOREIGN EXCHANGE GAINS

	2016 *RMB'000*	2015 *RMB'000*
Other gains *(Note 6)*	**2,608**	2,650
Net finance income *(Note 9)*	**2,417**	2,341
Total	**5,025**	4,991

11 INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current income tax	**4,322**	4,227
Deferred income tax *(Note 30)*	**174**	22
	4,496	4,249

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. 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 RMB'000	2015 RMB'000
Profit before income tax	**27,778**	7,816
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	**989**	3,715
	4,496	4,249

12 EARNINGS PER SHARE

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

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

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.

13 LAND USE RIGHTS

	2016	2015
	RMB'000	*RMB'000*
Opening net book amount	**4,999**	5,115
Additions	**430**	–
Amortisation *(Note 7)*	**(119)**	(116)
Closing net book amount	**5,310**	4,999

	2016	2015
	RMB'000	*RMB'000*
Cost	**6,206**	5,776
Accumulated amortisation	**(896)**	(777)
Net book amount	**5,310**	4,999

The lease periods of land use rights are 50 years. As at 31 December 2016, the remaining lease periods of the Group's land use rights were 36 to 47 years (2015: 37 to 48 years).

As at 31 December 2016, the Group's land use rights were pledged to secure notes payable (2015: notes payable) (Note 28(b)).

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 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	32,177	17,418	6,207	2,162	12,320	70,284
Year ended 31 December 2015						
Opening net book amount	32,177	17,418	6,207	2,162	12,320	70,284
Additions	356	3,581	578	1,333	14,828	20,676
Disposal	–	–	(49)	–	–	(49)
Transfer	1,232	3,099	–	–	(4,331)	–
Depreciation *(Note 7)*	(1,661)	(1,960)	(1,022)	(432)	–	(5,075)
Closing net book amount	32,104	22,138	5,714	3,063	22,817	85,836
At 31 December 2015						
Cost	41,876	34,397	8,895	5,412	22,817	113,397
Accumulated depreciation	(9,772)	(12,259)	(3,181)	(2,349)	–	(27,561)
Net book amount	32,104	22,138	5,714	3,063	22,817	85,836
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 *(Note 7)*	(2,633)	(2,224)	(822)	(531)	–	(6,210)
Closing net book amount	58,736	22,335	5,192	3,280	66	89,609
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	58,736	22,335	5,192	3,280	66	89,609

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged in:

	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**2,229**	1,426
Administrative expenses	**3,959**	3,625
Selling expenses	**22**	24
Total	**6,210**	5,075

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 28(b)).

15 INVESTMENT PROPERTY

	2016
	RMB'000
Acquisition during the year	**5,372**
Net gain from fair value adjustment *(Note 6)*	**1,028**
Closing balance at 31 December	**6,400**

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance (2015: Nil).

The Group's investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property through sale. The Group has measured the deferred tax relating to the temporary differences of the investment property using the tax rates and the tax bases that are consistent with the expected manner of recovery of the investment property (Note 30).

15 INVESTMENT PROPERTY *(Continued)*

Valuation processes of the Group

The Group's investment property was valued at 31 December 2016 by Roma Appraisals Limited, an independent and professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment property valued. For the investment property, its current use equates the highest and best use.

Discussions of valuation processes and results are held between management and the valuer on an annual basis, in line with the Group's annual reporting dates.

At each year-end, management:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuer.

Valuation technique

Valuation is based on direct comparison approach assuming sale of the property in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as locations and property size.

Information about fair value measurements using significant unobservable inputs (level 3)

	Fair value as at 31 December 2016	Valuation techniques	Unobservable inputs	Amount of unobservable inputs
Investment Property	6,400,000	Direction comparison method	Market price (RMB/square meter)	10,186

15 INVESTMENT PROPERTY *(Continued)*

The relationship of unobservable inputs to fair value is the higher market price, the higher fair value.

The revaluation gain is included in 'Other gains' in the consolidated statement of comprehensive income (Note 6).

The property has not been rented out during the year.

As at 31 December 2016, investment property with fair value of RMB6,400,000 (2015: Nil) was pledged as collateral for the Group's borrowings.

16 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

Name	Place and date of incorporation/ establishment	Authorised/ registered capital	Paid up capital	Equity interest held	Principal activities and place of operation
Directly held:					
Ludao BVI	Incorporated in British Virgin Island ("BVI") on 18 December 2007	USD50,000	USD111	100%	Investment holding, BVI
Indirectly held:					
Ludao PRC	Established in the PRC on 23 August 2002	HKD120,000,000	HKD120,000,000	100%	Manufacturing and selling of aerosol products, the PRC
Century Harvest Hongkong Corporation Limited	Incorporated in Hong Kong on 13 December 2016	HKD10,000	HKD10,000	100%	Investment holding, Hong Kong
Wealth Year Corporation Limited	Incorporated in Hong Kong on 16 November 2012	HKD10,000	HKD1	100%	Investment holding, Hong Kong

All subsidiaries are limited liability companies.

17 INTANGIBLE ASSETS

	Computer Software *RMB'000*	Patents *RMB'000*	Total *RMB'000*
At 1 January 2015			
Cost	394	750	1,144
Accumulated amortisation	(140)	(275)	(415)
Net book amount	254	475	729
Year ended 31 December 2015			
Opening net book amount	254	475	729
Additions	5	–	5
Amortisation charge *(Note 7)*	(45)	(150)	(195)
Closing net book amount	214	325	539
At 31 December 2015			
Cost	399	750	1,149
Accumulated amortisation	(185)	(425)	(610)
Net book amount	214	325	539
Year ended 31 December 2016			
Opening net book amount	214	325	539
Additions	128	–	128
Amortisation charge *(Note 7)*	(51)	(150)	(201)
Closing net book amount	291	175	466
At 31 December 2016			
Cost	527	750	1,277
Accumulated amortisation	(236)	(575)	(811)
Net book amount	291	175	466

Amortisation had been charged in administrative expenses.

18 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables		Assets at fair value through profit or loss		Total	
	2016 *RMB'000*	2015 *RMB'000*	**2016** *RMB'000*	2015 *RMB'000*	**2016** *RMB'000*	2015 *RMB'000*
At 31 December						
Assets as per consolidated balance sheet						
Trade and other receivables excluding prepayments	**91,981**	98,667	**–**	–	**91,981**	98,667
Financial assets at fair value through profit or loss	**–**	–	**19,240**	–	**19,240**	–
Cash and cash equivalents and short-term bank deposits	**106,951**	120,819	**–**	–	**106,951**	120,819
Pledged bank deposits	**14,371**	18,711	**–**	–	**14,371**	18,711
Total	**213,303**	238,197	**19,240**	–	**232,543**	238,197

	Liabilities at amortised cost	
	2016 *RMB'000*	2015 *RMB'000*
At 31 December		
Liabilities as per consolidated balance sheet		
Bank borrowings	**2,191**	–
Trade and other payables (excluding other taxes payable and salaries payable)	**95,117**	93,109
Total	**97,308**	93,109

19 INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**18,913**	15,077
Work in progress	**898**	2,924
Finished goods	**17,912**	17,036
Inventories – net	**37,723**	35,037

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).

20 TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
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
	154,055	140,941

20 **TRADE AND OTHER RECEIVABLES** *(Continued)*

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

	2016 *RMB'000*	2015 *RMB'000*
RMB	**96,532**	77,828
USD	**57,155**	63,039
HKD	**368**	74
	154,055	140,941

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 *RMB'000*	2015 *RMB'000*
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%) of the gross trade receivable balances as at 31 December 2016.

20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

As at 31 December 2016, trade receivables of RMB9,929,000 (2015: RMB3,887,000) were past due but not considered impaired. These related 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 *RMB'000*	2015 *RMB'000*
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.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 *RMB'000*	2015 *RMB'000*
Unlisted wealth management products – held-for-trading	**19,240**	–

Wealth management products are investments in trust schemes and investment funds. They have initial terms of 1 or 2 days. The fair values of these investments were determined by using recent quoted market prices by banks and approximate to their carrying values as at 31 December 2016.

22 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2016 *RMB'000*	2015 *RMB'000*
Cash at banks and in hand	**25,851**	120,819
Short-term bank deposits	**81,100**	–
	106,951	120,819

22 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS *(Continued)*

The amounts are denominated in the following currencies:

	2016	2015
	RMB'000	*RMB'000*
RMB	**88,514**	92,214
HKD	**3,704**	25,836
USD	**14,733**	2,769
	106,951	120,819

The weighted average interest rate for the short-term bank deposits of the Group with initial terms more than 3 months but less than one year as at 31 December 2016 was 2.13% per annum.

The carrying amounts of cash and cash equivalents and short-term bank deposits approximate to their fair values and represent maximum exposure to credit risk.

23 PLEDGED BANK DEPOSITS

Pledged bank deposits represented bank deposits of the Group placed as guarantee deposits for issuing notes payable (Note 28(b)).

As at 31 December 2016, the effective interest rate of pledged bank deposits was 1.44% (2015: 2.52%). All pledged bank deposits were denominated in RMB and kept in bank accounts with banks in the PRC.

24 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2016 and 2015	
	Number of shares ***(thousands)***	***HK$'000***
Authorised Capital:		
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**

24 SHARE CAPITAL AND SHARE PREMIUM *(Continued)*

	Issued and fully paid: Number of ordinary shares (of HKD0.01 each)	Share capital RMB'000	Share premium RMB'000
At 31 December 2015 and 31 December 2016	480,000,000	3,801	134,143

All shares issued rank pari passu against each other.

25 OTHER RESERVES

	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Share option reserves RMB'000	Total RMB'000
At 1 January 2015	8,986	28,029	13,879	(201)	–	50,693
Profit appropriation (a)	–	–	1,460	–	–	1,460
Share option scheme						
– Value of employee services	–	–	–	–	17,022	17,022
– Value of other services	–	–	–	–	3,906	3,906
Currency translation differences	–	–	–	2,154	–	2,154
At 31 December 2015 and 1 January 2016	8,986	28,029	15,339	1,953	20,928	75,235
Profit appropriation (a)	–	–	2,808	–	–	2,808
Currency translation differences	–	–	–	260	–	260
At 31 December 2016	8,986	28,029	18,147	2,213	20,928	78,303

(a) In accordance with relevant laws and regulations of the PRC, Ludao PRC should make appropriation of not less than 10% of its net income after taxes to legal reserve. Further appropriation is optional when the accumulated statutory reserve reaches 50% or more of its registered capital. Upon approval from the board of directors, the statutory reserves can be used to offset accumulated losses of Ludao PRC.

26 SHARE BASED PAYMENTS

(a) Share options

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

Movement in the numbers of share options outstanding:

(b) Outstanding share options

	Number of share options	
	2016	2015
At 1 January	**40,000,000**	–
Granted	**–**	40,000,000
At 31 December	**40,000,000**	40,000,000

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).

27 DEFERRED GOVERNMENT GRANTS

	2016 RMB'000	2015 RMB'000
At 1 January	**1,155**	1,300
Recognised to consolidated statement of comprehensive income	**(145)**	(145)
At 31 December	**1,010**	1,155

The amount mainly represents various government grants received by Ludao PRC for subsidising its investments in fixed assets.

28 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
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
	99,230	98,750

28 TRADE AND OTHER PAYABLES *(Continued)*

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

	2016	2015
	RMB'000	*RMB'000*
RMB	**97,276**	94,979
HKD	**382**	268
USD	**1,572**	3,503
	99,230	98,750

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	2015
	RMB'000	*RMB'000*
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
	24,435	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 (Note 23), the land use rights (Note 13) and certain property, plant and equipment (Note 14) of the Group.

29 BANK BORROWINGS

	2016	2015
	RMB'000	*RMB'000*
Non-current		
Bank borrowings	**1,284**	–
Current		
Bank borrowings	**907**	–
	2,191	–

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) (Note 15).

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
	RMB'000	*RMB'000*
Within 1 year	**907**	–
Between 1 and 2 years	**907**	–
Between 2 and 5 years	**377**	–
	2,191	–

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

The carrying amounts of the bank borrowings are denominated in RMB and approximate to their fair values as the interest of bank borrowings is at floating-rate and the impact of discounting is not material.

30 DEFERRED INCOME TAX

	2016 *RMB'000*	2015 *RMB'000*
Deferred tax assets:		
– to be recovered within 12 months	**22**	22
– to be recovered after 12 months	**350**	372
	372	394
Deferred tax liabilities:		
– to be settled after more than 12 months	**152**	–

Movement in deferred tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax assets:

	Government grants payable *RMB'000*	Accrued expenses *RMB'000*	Total *RMB'000*
At 1 January 2015	196	220	416
Charged to the consolidated statement of comprehensive income	(22)	–	(22)
At 31 December 2015	174	220	394
At 1 January 2016	174	220	394
Charged to the consolidated statement of comprehensive income	(22)	–	(22)
At 31 December 2016	152	220	372

30 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities:

	Fair value gain on investment property	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**–**	–
Charged to the consolidated statement of comprehensive income	**(152)**	–
At 31 December	**(152)**	–

Pursuant to the Corporate Income Tax Law of the People's Republic of China ("the CIT Law"), a 10% withholding tax will be levied on the dividends declared by companies established in the PRC from profits generated after 1 January 2008 to their foreign investors. As at 31 December 2016, the Group did not recognise deferred tax liabilities of RMB15,468,000 (2015: RMB12,941,000) on approximately RMB154,684,000 (2015: RMB129,413,000) of profits generated from Ludao PRC after 1 January 2008 as no dividends would be declared by Ludao PRC out of those profits in the foreseeable future considering the cash flow requirements of the Group.

31 DIVIDEND

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

32 LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statement of the Company to the extent of approximately RMB4,300,000 (2015: RMB11,023,000).

33 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

Reconciliation of profit before income tax to cash generated from operations

	2016 *RMB'000*	2015 *RMB'000*
Profit before income tax	**27,778**	7,816
Adjustments for:		
Interest income *(Note 9)*	**(1,209)**	(589)
Interest expense *(Note 9)*	**69**	1,124
Depreciation of property, plant and equipment *(Note 14)*	**6,210**	5,075
Fair value gain on investment property *(Note 15)*	**(1,028)**	–
Amortisation of land use rights and intangible assets *(Note 13 and 17)*	**320**	311
Impairment charge for bad debt *(Note 20)*	**60**	231
Share option expenses *(Note 26)*	**–**	20,928
Losses on disposals of property, plant and equipment	**33**	–
Changes in working capital:		
(Increase)/decrease in trade and other receivables	**(13,058)**	47,431
Increase in inventories	**(2,686)**	(1,275)
Decrease in trade and other payables	**(3,659)**	(8,021)
Cash generated from operations	**12,830**	73,031

In the consolidated cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	2016 *RMB'000*	2015 *RMB'000*
Net book amount	**130**	–
Loss on disposals	**(33)**	–
Proceeds	**97**	–

34 CONTINGENT LIABILITIES

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

35 COMMITMENTS

(a) Capital commitments

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

	2016 *RMB'000*	2015 *RMB'000*
Property, plant and equipment	**1,281**	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:

	2016 *RMB'000*	2015 *RMB'000*
Not later than one year	**1,723**	181
Later than one year and not later than five years	**2,107**	113
	3,830	294

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	 2015 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*16*	**28,597**	27,626
Property, plant and equipment		**1,050**	–
		29,647	27,626
Current assets			
Trade and other receivables		**137,959**	112,039
Cash and cash equivalents		**3,665**	25,793
		141,624	137,832
Total assets		**171,271**	165,458
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**3,801**	3,801
Share premium		**149,873**	149,873
Other reserves	*(a)*	**39,160**	29,420
Accumulated losses	*(b)*	**(27,356)**	(23,056)
Total equity		**165,478**	160,038
LIABILITIES			
Current liabilities			
Trade and other payables		**5,793**	5,420
Total liabilities		**5,793**	5,420
Total equity and liabilities		**171,271**	165,458

The balance sheet of the Company was approved by the Board of Directors on 23 March 2017 and was signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Reserves movement of the Company

	Share option reserves *RMB'000*	Exchange reserves *RMB'000*	Total *RMB'000*
At 1 January 2015	–	(101)	(101)
Share option scheme			
– Value of employee services	17,022	–	17,022
– Value of other services	3,906	–	3,906
Currency translation differences	–	8,593	8,593
At 31 December 2015 and 1 January 2016	20,928	8,492	29,420
Currency translation differences	–	9,740	9,740
At 31 December 2016	20,928	18,232	39,160

(b) Accumulated losses

	2016 ***RMB'000***	2015 *RMB'000*
Balance at 1 January	**(23,056)**	(12,033)
Comprehensive income		
Losses for the year	**(4,300)**	(11,023)
Currency translation differences	**–**	–
Total comprehensive income	**(4,300)**	(11,023)
Balance at 31 December	**(27,356)**	(23,056)

37 BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

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

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

Name of Directors	Fee		Salary		Employer's contribution to retirement scheme		Share based compensation		Total	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Executive Directors										
Mr. Yu Yuerong – also the chief executive	–	–	644	458	16	12	–	–	660	470
Mr. Wang Xiaobing	–	–	234	138	20	8	–	2,104	254	2,250
Ms. Pan Yili	–	–	103	102	4	4	–	1,578	107	1,684
Mr. Chen Baoyuan	–	–	133	132	4	3	–	2,104	137	2,239
Ms. Wang Jinfei – resigned on 26 January 2017	–	–	322	225	16	11	–	1,841	338	2,077
	–	–	1,436	1,055	60	38	–	7,627	1,496	8,720
Independence non-executive Directors										
Ms. Cho Mei Ting	161	145	–	–	–	–	–	–	161	145
Mr. Chan Yin Tsung – appointed on 1 November 2016	27	–	–	–	–	–	–	–	27	–
Mr. Ruan Lianfa	142	142	–	–	–	–	–	–	142	142
Mr. Wong Chi Wai – resigned on 1 November 2016	134	145	–	–	–	–	–	–	134	145
	464	432	–	–	–	–	–	–	464	432

During the year, no directors or any of the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors or five highest paid individuals as an inducement to join or upon joining the companies comprising the Group or as compensation for loss of office.

There was no directors' retirement benefits, directors' termination benefits, consideration provided to third parties for making available directors' services and no loans, quasi-loans or other dealings entered into by the Group in favour of any directors, bodies corporate controlled by and entities connected with such directors during the year (2015: Nil).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Financial Summary

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

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**274,232**	266,010	253,795	251,382	228,852
Cost of sales	**(196,990)**	(200,275)	(189,094)	(188,860)	(173,574)
Gross profit	**77,242**	65,735	64,701	62,522	55,278
Other income and other gains – net	**4,408**	5,209	3,885	7,775	5,110
Selling expenses	**(21,612)**	(18,543)	(16,109)	(11,423)	(9,967)
Administrative expenses	**(35,817)**	(46,391)	(27,568)	(29,648)	(22,980)
Finance income – net	**3,557**	1,806	(747)	(230)	856
PROFIT BEFORE INCOME TAX	**27,778**	7,816	24,162	29,456	28,297
Income tax expense	**(4,496)**	(4,249)	(3,654)	(5,449)	(4,485)
PROFIT FOR THE YEAR	**23,282**	3,567	20,508	24,007	23,812

ASSETS AND LIABILITIES

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**438,414**	412,621	342,521	295,800	209,362
TOTAL LIABILITIES	**102,761**	100,510	139,680	113,397	116,400
	335,653	312,111	202,841	182,403	92,962

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2015 and 2016 and the consolidated assets and liabilities of the Group as at 31 December 2015 and 2016 are set out on pages 48 to 109 of this annual report.

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