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)

2017
ANNUAL REPORT
A Better World For Everyone

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yu Yuerong *(Chairman)*
Mr. Tan Xiangdong *(Deputy Chairman)*
(appointed on 22 May 2017)
Mr. Chen Baoyuan
Ms. Pan Yili
Ms. Wang Jinfei (resigned on 26 January 2017)
Mr. Wang Xiaobing

NON-EXECUTIVE DIRECTOR

Mr. Tian Tingshan (appointed on 20 July 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung
Ms. Cho Mei Ting (resigned on 7 July 2017)
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean (appointed on 7 July 2017)

AUDIT COMMITTEE

Mr. Chan Yin Tsung *(Chairman)*
Ms. Cho Mei Ting (resigned on 7 July 2017)
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean (appointed on 7 July 2017)

NOMINATION COMMITTEE

Ms. Yau Kit Kuen Jean *(Chairlady)*
(appointed on 7 July 2017)
Mr. Chan Yin Tsung
Ms. Cho Mei Ting (resigned on 7 July 2017)
Mr. Ruan Lianfa
Mr. Yu Yuerong

REMUNERATION COMMITTEE

Mr. Chan Yin Tsung *(Chairman)*
Ms. Cho Mei Ting (resigned on 7 July 2017)
Mr. Ruan Lianfa
Mr. Yu Yuerong
Ms. Yau Kit Kuen Jean (appointed on 7 July 2017)

COMPANY SECRETARY

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

REGISTERED OFFICE

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P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

Ma Tang & Co.
Rooms 1508-1513,
Nan Fung Tower,
88 Connaught Road Central
Central,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House
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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
China Everbright Bank Co., Ltd.,
Hong Kong Branch

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 2017 (the "Reporting Period").

During the Reporting Period, the global economy continued to improve, against the backdrop of global economic recovery, the Board and the management of the Group sized up the situation and grasped the opportunity to strengthen the cooperation with strategic customers and expand the international market via several channels and modes. The Group sustained considerable growth in sales volume of CMS business. Meanwhile, despite the stable and better development of the economy of the People's Republic of China (the "PRC"), the Group's OBM business was still doubtfully optimistic with intensified competition in domestic market and greater difficulty in winning customers. The Board and management of the Group will not only continue to consolidate and strengthen the global market, but also invest more resources in domestic market, and utilize its new product research and development capability and cost control capability to continuously improve product quality, expand sales network, and improve its OBM business.

On the other hand, the Group also engaged in energy business of collection and utilization of sewage source thermal energy in the second half of 2017 through project acquisition. This was an important step for the Group to engage in the clean energy business. Considering market demands and national policies, China's clean energy business will have good prospects in future. The Board and management of the Group will invest more resources to enhance its competitiveness in the clean energy business and heat supply business ("Energy Business").

Expect that 2018 is going to be another challenging year, the Group will continue to develop the global aerosol market and at the same time, will invest more resources into the Energy Business and seek for new profit growth points for the Group.

Last but not least, on behalf of the Board, I would like to extend my heartfelt thanks 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. In praise of their support, the Group will unwaveringly strive for reaping more promising business performance.

Yu Yuerong
Chairman and Executive Director

Hong Kong, 28 March 2018

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. Meanwhile, the Group also expands the market in Mainland China on CMS basis gradually. 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 offers 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.

During the Reporting Period, the global economy continued to improve with a higher growth rate. Developed economies showed positive momentum of development, and the economic development of emerging markets and developing economies had signs of stabilization and recovery. Against the backdrop of global economic recovery, the Board and the management of the Group sized up the situation and grasped the opportunity to strengthen the cooperation with strategic customers, and expand the international market via several channels and modes. Thanks to the unremitting endeavor of the sales team, the Group sustained considerable growth in sales volume of CMS business. Meanwhile, despite the stable and better development of Chinese economy, the Group's OBM business was still doubtfully optimistic with intensified competition in domestic market and greater difficulty in winning customers. The Board and management of the Group will not only continue to consolidate and strengthen the global market, but also invest more resources in domestic market, and utilize its new product research and development capability and cost control capability to continuously improve product quality, expand sales network, and improve its OBM business.

On the other hand, the Group also engaged in energy business of collection and utilization of sewage source thermal energy in July 2017 through project acquisition. This was an important step for the Group to engage in the clean energy business. Considering market demands and national policies, China's clean energy business will have good prospects in future. The Board and management of the Group will invest more resources to enhance its competitiveness in the clean energy business and heat supply business ("Energy Business").

For the Reporting Period, the revenue and net profit of the Group were approximately RMB395.7 million and RMB21.9 million respectively, representing an increase of approximately 44.3% and a decrease of 6.0% respectively over 2016. Basic earnings per share was approximately RMB5 cents (2016: RMB5 cents).

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB360.0 million (2016: RMB212.7 million) representing an increase of approximately 69.3% as compared with last year.

During the Reporting Period, the global economy continued to improve with a higher growth rate. Developed economies showed positive momentum of development, and the economic development of emerging markets and developing economies had signs of stabilization and recovery. Thanks to global economic recovery, the Group had closer cooperation with strategic customers. Therefore, the Group's CMS business maintained good development with staggering growth. The Group will also continue to explore and develop new overseas markets, and maintain quality and competitive price of products in the upcoming financial year to consolidate its CMS business.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB35.7 million (2016: RMB61.5 million), representing a decrease of approximately 42.0% as compared with last year.

With the gradually decelerating growth in the total retail sales of domestic consumer goods 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 integration of marketing strategies, continuous development of innovative products, enrichment of product lines and promotion of the product image and its brand name. Based on the well-established market position in the industry, the Group will improve its OBM business through the integration of strategies.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB307.3 million (2016: RMB197.0 million), representing an increase of approximately 56.0% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB88.4 million (2016: RMB77.2 million), representing an increase of approximately 14.5% as compared to that of the prior year. The gross profit margin was approximately 22.3% (2016: 28.2%), the relevant decrease of approximately 5.9% was primarily due to the changes of products structure and increase of production costs as compared to that of the prior year.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB21.9 million (2016: RMB23.3 million), representing a decrease of approximately 6.0% when compared to the prior year. The net profit margin of the Group decreased from 8.5% in 2016 to 5.5% in 2017. Such decrease was primarily due to the decrease of other gains, increase of administrative expenses and increase of finance costs.

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 RMB18.6 million (2016: RMB21.6 million), representing a decrease of approximately 13.9% as compared to that of the prior year. The decrease was primarily due to the decrease in sales support expenses and transportation and travelling expenses the Group's 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 RMB41.2 million (2016: RMB35.8 million), representing an increase of approximately 15.1% as compared to that of the prior year. The increase was primarily due to the increase in staff salaries and benefit expense.

Finance (costs)/income – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB4.8 million (2016: net finance income RMB3.6 million), representing a decrease of approximately RMB8.4 million as compared to that of the prior year. The decrease was primarily due to increase in foreign exchange loss and increase of interest expense from bank borrowings.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB4.9 million, representing an increase of approximately RMB0.4 million as compared with RMB4.5 million in 2016. Effective income tax rate for the current period was approximately 18.3%, which was higher as compared with approximately 16.2% over 2016. The higher effective income tax rate was primarily due to the increase in expenses not deductible for tax purpose.

HIGHLIGHT OF BALANCE SHEET

Trade Receivables

As at 31 December 2017, trade receivables of approximately RMB6.1 million were past due, representing a decrease of approximately 38.4% as compared to the amount of RMB9.9 million as at 31 December 2016. The amount of the provision was RMB323,000 as at 31 December 2017 (2016: RMB291,000). The individually impaired receivables mainly relate to wholesalers, which no longer dealt with the Company for more than 2 years. It was assessed that all of the receivables would not be recovered.

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2017 (2016: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the total assets of the Group amounted to approximately RMB640.7 million (2016: RMB438.4 million), and net current assets of approximately RMB167.6 million (2016: RMB232.0 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 63%, which was higher as compared with approximately 19% over 2016. The significant increase was primarily due to the issuance of bonds and the increase of bank borrowings and loans from a third party for financing the business acquisition during the year.

BORROWINGS

As at 31 December 2017, bank borrowings of the Group amounted to approximately RMB44.6 million (2016: RMB2.2 million) with full maturity until 2018.

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 2017, the Group's operating lease commitment amounted to approximately RMB7.9 million (2016: RMB3.8 million). As at 31 December 2017, the Group had capital commitments of approximately RMB93.0 million in respect of equity interest investment and approximately RMB1.5 million in respect of property, plant and equipment (2016: Nil and RMB1.3 million respectively). The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of approximately RMB0.3 million within one year and approximately RMB1.4 million later than one year and no later than five years.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (2016: 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 2017, the Group had employed a total of 492 employees (2016: 394). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of Directors have been determined with reference to the skills, knowledge, involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the year. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonuses and the Group's contribution to mandatory provident funds (or state-managed retirement benefits scheme). Other benefits include share options granted or to be granted under the Share Option Schemes and training schemes. The Group will review the remuneration policy and related packages on a regular basis.

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group invested RMB52.0 million, Nil, approximately RMB13.9 million, Nil, RMB70.0 million and Nil in investment in a joint venture, land use rights, property, plant and equipment, investment property, prepayments for investment and financial assets at fair value through profit or loss respectively (2016: Nil, RMB0.4 million, RMB10.1 million, RMB5.4 million, Nil, and RMB19.2 million 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 2017, the net proceeds from the initial public offering ("IPO") had been applied as follows:

	Actual net proceeds	Amount utilised up to 31 December 2017	Balance unutilised balance as at 31 December 2017
	HK$ million	*HK$ million*	*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	4	3
To fund the working capital requirement	6	6	–
Total	59	56	3

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

MATERIAL ACQUISITION

(a) On 4 July 2017, the Company has entered into a sale and purchase agreement with Wealth Linkage Development Limited and four individuals, pursuant to which Wealth Linkage Development Limited agreed to sell and the Company agreed to purchase 50% of the issued ordinary shares and 50% shareholder's loan of the target company, Illustrious Success Limited at the consideration of RMB52,000,000 (equivalent to approximately HK$59,898,860).

The acquisition was completed in July 2017. Further details of the acquisition are set out in the Company's announcements dated 4 July 2017 and 5 July 2017.

(b) On 29 November 2017, Prosper One Development Limited, a wholly-owned subsidiary of the Company (the "Purchaser") has entered into a sale and purchase agreement with Perfect Century Group Limited (the "Vendor"), pursuant to which Perfect Century Group Limited agreed to sell and the Company agreed to purchase 25% of equity interest of the target company, Ever Clever Group Limited at the consideration of RMB160 million (equivalent to approximately HK$188.8 million).

The acquisition was completed on 8 January 2018. As at the date of this report, the Purchaser has paid the partial consideration of RMB102 million to the Vendor. Further details of the acquisition are set out in the Company's announcements dated 29 November 2017, 5 December 2017, 28 February 2018 and 9 March 2018.

FUND RAISING ACTIVITIES AND USE OF PROCEEDS

Save as disclosed below, the Company did not conduct any other fund raising activities during the year ended 31 December 2017.

On 20 July 2017, the Company entered into a referral agreement pursuant to which an independent third party company agreed to act as a referral agent for the purposes of referring subscribers to the Company for issue of the 6% coupon bonds due in 2019 (the "2017 Bonds") in an aggregate principal amount of up to HK$100 million during the referral period from 20 July 2017 to 31 January 2018.

The proceeds will be used by the Company (i) for strengthening the financial position of the Group; (ii) for investment activities when such suitable investment opportunities arise and (iii) any remaining balance will be used as general working capital of the Group.

Up to the date of this report, the 2017 Bonds in an aggregate principal amount of HK$59 million has been successfully subscribed by several independent individual investors.

Further details of the 2017 Bonds can be found in the Company's announcement dated 20 July 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company planned to continue upgrading the existing production line in the future for the sake of improving the automatic level and production quality. In addition, the Group will continue to invest and develop projects for the research and development, manufacture and sale of medical and edible aerosol products through its joint venture entity in the PRC. Meanwhile, the Company will also consider to further invest in developing the Energy Business through acquisition as disclosed in the Company's announcement dated 5 December 2017.

PROSPECTS

Despite the expected higher growth rate, the global economy will be severely affected by the reverse globalization and trade protectionism, especially intensified trade war between the US and China, which will have a negative impact on the Group's business development. The Board and the management of Group will counterbalance adverse impacts by strengthening cooperation with strategic customers and expanding the international market according to actual situations. Looking forward to the future, the Group will provide integrated solutions for the global aerosol industry, create more values for customers, enhance the long-term relationship with existing CMS customers, and continuously expand new markets by leveraging on its new product research and development capability, cost control and improved production capability.

Based on the stable foundation, the Group is still prudent and optimistic towards its domestic market and OBM business. The Group will continue to improve its OBM business by developing high value-added products, improving existing OBM product line, strictly controlling cost, lifting the brand image, and enhancing the competitiveness of products.

On the other hand, the Group will continue to invest resources in the Energy Business in order to lay solid foundation for further development of and improve the competitiveness of its Energy Business, and seek for new profit growth points.

Corporate Governance Report

The Board is pleased to present this corporate governance report (the "Corporate Governance Report") for the year ended 31 December 2017.

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 five executive directors, one non-executive director 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 25 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 2017, 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. Yu Yuerong, Mr. Tan Xiangdong, Ms. Pan Yili, Mr. Wang Xiaobing, Ms. Yau Kit Kuen Jean and Mr. Tian Tingshan shall retire from office and, being eligible, offer themselves for re-election at the forthcoming 2017 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.

NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Code provision A.4.1 provides that non-executive Directors should be appointed for a specific term and subject to re-election. The Company's non-executive Director and independent non-executive Directors have been appointed for an initial term of three years. All of the Company's non-executive Directors and independent non-executive Directors in position as at 31 December 2017 are subject to re-election.

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 2017. 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 2017, the Directors including Mr. Yu Yuerong, Mr. Tan Xiangdong, Mr. Chen Baoyuan, Ms. Pan Yili, Mr. Wang Xiaobing, Mr. Tian Tingshan, Mr. Chan Yin Tsung, Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean 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), Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean. 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 2017 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. Yau Kit Kuen Jean, Mr. Ruan Lianfa, and one executive Director, Mr. Yu.

During the Reporting Period, there were five 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 directors for the years ended 31 December 2017 and 2016 are set out in note 38 to the consolidated financial statements.

Pursuant to CG Code provision B.1.5, the remuneration of the members of the senior management (other than Directors) whose particulars are contained in the section headed "Biographies of Directors and Senior Management" in this annual report for the year ended 31 December 2017 by band is set out below:

Remuneration Bands	Number of Senior Management
Nil to HK$1,000,000	2

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. Yau Kit Kuen Jean (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 five 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 Meeting
Executive Directors					
Mr. Yu Yuerong *(Note 1)*	15/15	N/A	5/5	5/5	1/1
Mr. Tan Xiangdong *(Note 2)*	11/11	N/A	N/A	N/A	N/A
Mr. Chen Baoyuan	15/15	N/A	N/A	N/A	1/1
Ms. Pan Yili	15/15	N/A	N/A	N/A	1/1
Ms. Wang Jinfei *(Note 3)*	1/1	N/A	N/A	N/A	N/A
Mr. Wang Xiaobing	15/15	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Tian Tingshan *(Note 4)*	4/4	N/A	N/A	N/A	N/A
Independent Non-Executive Directors					
Mr. Chan Yin Tsung *(Note 5)*	15/15	2/2	5/5	5/5	1/1
Ms. Cho Mei Ting *(Note 6)*	8/8	2/2	2/2	2/2	1/1
Mr. Ruan Lianfa	15/15	1/2	5/5	5/5	1/1
Ms. Yau Kit Kuen Jean *(Note 7 & 8)*	5/5	1/1	2/2	2/2	N/A

Notes:

1. Chairman of the Company
2 Mr. Tan Xiangdong appointed on 22 May 2017
3. Ms. Wang Jinfei resigned on 26 January 2017
4. Mr. Tian Tingshan appointed on 20 July 2017
5. Chairman of the Audit Committee and the Remuneration Committee
6. Ms. Cho Mei Ting resigned on 7 July 2017
7. Chairlady of the Nomination Committee
8. Ms. Yau Kit Kuen Jean appointed on 7 July 2017

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 2017.

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 2017. 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 2017, the fee payable to PricewaterhouseCoopers in respect of its statutory audit services and non-audit service related to review the preliminary annual results announcement of the Group provided to the Company were approximately RMB1.4 million and RMB54,000 respectively (2016: RMB1.4 million and RMB54,000).

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 2017.

The Company engaged a professional firm as an independent advisor to conduct internal control review of the Group for the year ended 31 December 2017. 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 and adequate.

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 all policies adopted by the Company regarding inside information including the Model Code set out in Appendix 10 of the Listing Rules in relation to dealings in securities of the Company. 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 may send their enquiries and concerns in writing to the Board or the Company Secretary by addressing them to the Company at our principal place of business in Hong Kong or by email through the Company's website.

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 50, 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 21 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. Tan Xiangdong (譚向東), aged 63, was appointed as the deputy chairman and an executive Director of the Company on 22 May 2017, received a doctorate degree in economics in Xiamen University in 1998, a master's degree in economics of Southwestern University of Finance and Economics (西南財經大學) in 1996 and a bachelor's degree in economics in Hunan University of Finance and Economics (湖南財經學院) in 1982. He is the Senior Economist in the PRC. He served at various positions in Industry and Commercial Bank of China (中國工商銀行) during 1985 to 1995 and was the deputy general manager of Trust Investment Company of the Head Office of ICBC (中國工商銀行總行信託投資公司) before he left. Afterwards, he was the general manager of Beijing Securities Co., Ltd. (北京證券有限責任公司) until 1997. From 1992 to 1996, he was the executive council member of Securities Association of China (中國證券業協會). He was appointed as the director of Shenzhen Stock Exchange (深圳證券交易所) from 1995 to 2005, the deputy general manager in United Securities Co., Ltd. (聯合證券有限責任公司) from 1997 to 2001, the chairman of Baoying Fund Management Co., Ltd. (寶盈基金管理有限公司) from 2001 to 2004, the chairman of City International Trust and Investment Company (城市國際信託投資公司) from 2004 to 2008, and the chairman and chief executive officer in National West Development Industries Fund Management Co., Ltd. (國家西部發展產業基金管理有限公司) from 2008 to 2014. From 2008 to 2012, he also was the chairman of Welichen Biotech Inc. of which shares are listed on TSX Venture Exchange in Canada. Mr. Tan was the independent director of Mirae Asset Management Co., Ltd. (華宸未來基金管理公司) from July 2012 to May 2015. He also was appointed as an executive director, a vice chairman and the chief executive officer of Heng Xin China Holdings Limited from 1 June 2016 to 23 June 2016, which is listed on the Growth Enterprise Market Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 8046). From May 2015 to April 2017, he was also appointed as an executive director and chairman of the board of directors of China Best Group Holding Limited which is listed on the Main Board of the Stock Exchange (stock code: 370).

EXECUTIVE DIRECTORS *(Continued)*

Mr. Chen Baoyuan (陳寶元), aged 45, 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 Tax Agent in the PRC and has over 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 42, was appointed as an executive Director of the Company on 16 September 2013. Ms. Pan has over 11 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.

Mr. Wang Xiaobing (王小兵), aged 44, 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.

Biographies of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Tian Tingshan（田廷山）, aged 61, was appointed as a non-executive Director of the Company on 20 July 2017, received a Doctor's Degree of Engineering in the Hydrology and Water Resources from Changchun University of Science and Technology in 1999, and obtained the senior qualification for professional and technical post of hydrology-engineering-environment researcher issued by the Ministry of Land and Resources of the People's Republic of China ("PRC") in 2000. He also serves as an expert in the emergency response to geological disasters in the Ministry of Land and Resources of PRC. Since 1982, Mr. Tian served at various key positions in the Ministry of Geology and Mineral Resources of the PRC, the Ministry of Land and Resources of the PRC, China Institute of Geo-Environment Monitoring, etc. Mr. Tian was the Chief Engineer of China Institute of Geo-Environment Monitoring in 2003, responsible for the organization, implementation and management of geological disaster prevention & control and early warning, and the organization and management of geo-environment monitoring technology. He was appointed as Vice-president of China Institute of Geo-Environment Monitoring and Executive Vice chairman of the Geological Disaster Emergency Center of the Ministry of Land and Resources from 2007 to June 2017. He has been Director of China Energy Research Society Geothermal Specialized Committee*（中國能源研究會地熱專業委員會）from 2007 till now. He was appointed as the member of International Geothermal Association Planning Commission in 2017. Currently, Mr. Tian serves as Director of China Energy Research Society Geothermal Specialized Committee, a member of the Technical Committee under the National Geothermal Energy Development and Utilization Research and Applicable Technology Promotion Center*（國家地熱能源開發利用研究與應用技術推廣中心技術委員會委員）, a member of the Expert Advisory Group for Environmental Impact Assessment under the Ministry of Environmental Protection of the PRC, an expert consultant for the China Ground Source Heat Pump Association, a member of the National Climate Change Committee under China Meteorological Administration, a member of International Geothermal Association Planning Commission, Director of China Mining Association Natural Mineral Water Specialized Committee*（中國礦業聯合會天然礦泉水專業委員會）, the Visiting Professor of China University of Geosciences (Beijing), Beijing Normal University and Jilin University, etc.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung（陳彥璁）, aged 38, 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 November 2003 to July 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 from October 2010 to April 2011 where he focused on advising clients in initial public offering. In June 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 August 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 of the group during the period from February 2014 to May 2016. 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)).

Mr. Ruan Lianfa（阮連法）, aged 64, 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）.

Ms. Yau Kit Kuen Jean（丘潔娟）, aged 49, was appointed as an independent non-executive Director of the Company on 7 July 2017, holds an honorary bachelor degree of specialized studies major (finance management) from the Ohio University, the United States. She is a licensed person registered with the Securities and Future Commission of Hong Kong for type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities. She also holds certificates from the Hong Kong Stock Exchange for stock brokerage, automatic trading system, options trading officer and representative, and options clearing officer.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Ms. Yau has over 18 years of experience in trading and sales of securities and trading of futures contracts. From 1999 to 2002, She was a securities trading manager of Citibank. From 2003 to 2012, Ms. Yau held various positions such as an associate director of the securities sales department of CITIC Securities Company Limited and a vice president of the securities sales department of CITIC Securities (HK) Company Limited. In January 2013, Ms. Yau joined BOCOM International Securities Limited as a vice president of the equity business department.

SENIOR MANAGEMENT

Mr. Ho Ka Wai（何嘉偉）, aged 35, 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 11 years of experience in accounting and auditing.

Mr. Wang Yongfei（王永飛）, aged 42, 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 21 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

ABOUT THIS REPORT

China Ludao Technology Company Limited (the "Company"), together with its subsidiaries (the "Group"), is pleased to present this Environmental, Social and Governance Report (the "Report") to provide an overview of the Group's management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects. This Report is prepared by the Group with the professional assistance of APAC Compliance Consultancy and Internal Control Services Limited.

Preparation Basis and Scope

This Report is prepared in accordance with Appendix 27 to the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") – "Environmental, Social and Governance Reporting Guide" and has complied with "comply or explain" provision in the Listing Rules.

This Report summarises the performance of the Group in respect of corporate social responsibility, covering its operating activities which are considered as material by the Group – (i) research and development, manufacture and sale of aerosol and related products ("aerosol business") in the People's Republic of China ("PRC"); and (ii) clean energy business of collection and utilisation of sewage source thermal energy ("clean energy business") in the PRC. With the aim to optimise and improve the disclosure requirements in the Report, the Group has taken initiative to formulate policies, record relevant data, implement and monitor measures. This Report shall be published both in Chinese and English on the website of Stock Exchange. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2017 to 31 December 2017.

Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by sending us your recommendation to our office at Room 02-03, 28/F, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong.

Environmental, Social and Governance Report

INTRODUCTION

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. Meanwhile, the Group also expands the market in Mainland China on CMS basis gradually. 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.

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 takes into consideration the sustainable development of the environment, the society and corporate governance in all aspects of the business operation of the Group, so that those standards could be sustained.

In July 2017, the Company has acquired a group company which engages in clean energy business of collection and utilisation of sewage source thermal energy in the PRC, laying a foundation for entering and exploring the huge market of new energy utilisation. The Group hopes to bring long-term sustainability and environmental protection by utilising this new green energy to provide both heating and cooling services to the public to replace conventional energy.

STAKEHOLDERS ENGAGEMENT

Stakeholders engagement is essential to the formulation of strategies for sustainable development. It allows the Group to understand risks and opportunities. The Group has identified key stakeholders that are important to our business and established various channels for communication.

Stakeholders	Issues of concern	Engagement channels
Government	– Compliance with laws and regulations – Proper tax payment – Promote regional economic development and employment	– On-site inspections and checks – Research and discussion through work conferences, work reports preparation and submission for approval – Company website

Stakeholders	Issues of concern	Engagement channels
Shareholders and Investors	– Return on the investment – Protection of interests and fair treatment of shareholders – Information transparency – Compliance with laws and regulations	– Company website – Annual general meeting and other shareholder meetings – Meeting with investors and analysts – Annual report, interim report and announcements
Employees	– Safeguard the rights and interests of employees – Health and safety – Good working environment – Career development opportunities – Self-actualisation	– Conference – Training, seminars and briefing sessions – Cultural and sport activities – Intranet and emails
Customers	– Safe and high-quality products – Stable relationship – Integrity – Business ethics	– Company website, brochures and annual reports – Email – Customer service hotline
Suppliers/Partners	– Long-term partnership – Honest cooperation	– Business meetings, supplier conferences, phone calls and interviews – Review and assessment
Financial institution	– Compliance with laws and regulations – Information disclosure	– Consulting – Information disclosure – Reports
Peer/Industry associations	– Fair competition – Experience sharing	– Industry conference
Public and Community	– Community involvement – Job opportunities – Environmental responsibilities – Social responsibilities	– Volunteering – Charity and social investment

ENVIRONMENTAL ASPECTS

The Group pledges to uphold quality environmental management. Based on ISO14001:2004, standard of environmental management system, the Group has implemented a set of internal policies and procedures for conserving resources, managing the wastes and minimising the pollution. The Group is committed to fulfilling and complying with national and regional environmental protection laws and regulations, including "Environmental Protection Law of the People's Republic of China", "Atmospheric Pollution Prevention and Control Law of the People's Republic of China", etc. During the reporting period, the Group had no non-compliance regarding environmental issues.

Emissions

The Group engages a qualified testing company to conduct regular testing on air pollutants, wastewater and noise emitted or produced to ensure that their emission levels are within the allowable levels as stipulated in the relevant emission standards of the PRC.

Air Pollutants Emission

Air pollutants emission control is vital to both environmental protection and the health of employees. The Group understands that its manufacturing process involves the use of different chemicals which causes various air pollutants emission, including volatile organic compounds (VOCs). The Group strictly complies with "Ambient Air Quality Standards (GB3095-2012)", "Integrated Emission Standard of Air Pollutants (GB16297-1996)", etc. for the air pollutants emission. The exhaust gas is collected for handling to reduce the pollutants before emission to the atmosphere. Methods to reduce the air pollutants include cyclone dust collector and activated carbon absorption.

The Group strives to improve the air quality. During the year, the Group has implemented "Treatment Information to VOCs"（有機廢氣整治資料）to control VOCs emission from source and production processes. The Group will carry out testing regularly on the VOCs emission level to improve the VOCs management procedure.

The major air pollutants of the Group during the reporting period is as follows:

Air Pollutants	Unit	Aerosol business	Clean energy business*	Total
Nitrogen oxides (NO_x)	kg	886.54	0.30	886.84
Sulfur dioxide (SO_2)	kg	20.08	0.05	20.13
Particular matter (PM)	kg	102.38	0.06	102.44
Carbon monoxide (CO)	kg	652.56	6.46	659.02
Hydrocarbon (HC)	kg	128.11	0.71	128.82

Greenhouse Gas ("GHG") Emission

The Group recognises that climate change poses a risk to its business and it is committed to mitigating the effects of climate change. GHG is considered as one of the major contributors to the climate change. The Group has implemented "Greenhouse Gas Emission Management System" to monitor and control the GHG emission. As the majority of the GHG emission of the Group comes from energy consumption, the Group reduces the GHG emissions by reducing the energy consumption in the business operation. The Group has adopted energy saving policy (as mentioned in the section "Use of Resources") in order to reduce the carbon footprint.

During the year, the Company has acquired a group company which engages in clean energy business of collection and utilisation of sewage source thermal energy in the PRC. This new clean energy can replace the use of conventional energy, such as burning of coal, to supply heat to the building. The existing new clean energy can supply heat to indoor area of about 300,000 m^2. This can replace burning of around 6,000 tonnes of coal to reduce significant amount of GHG emission and air pollutant emission. In the future, the Group is planning to expand the heating area to 1,000,000 m^2 to further reduce the GHG emission to achieve effective environmental protection.

* As clean energy business was acquired by the Company in July 2017, the data for clean energy business only covers July 2017 to December 2017.

The Group's GHG emission during the reporting period is as follows:

GHG Emission[1]	Unit	Aerosol business	Clean energy business*	Total
Scope 1[2]	tonnes of CO_2-e	183.06	1.46	184.52
Scope 2[3]	tonnes of CO_2-e	2,133.44	3,323.74	5,457.18
Total GHG emission	tonnes of CO_2-e	2,316.50	3,325.20	5,641.70
GHG intensity	Aerosol business: tonnes of CO_2-e/ tonnes of production Clean energy business: tonnes of CO_2-e/m^2	0.042	0.011	N/A^

Hazardous and Non-hazardous Wastes

The Group's "Solid Wastes Management System" provides guideline on classification, collection, storage and disposal of different wastes. Wastes are classified into hazardous waste, production waste and general waste by the Group. Each type of waste has specific storage location and collection procedures.

For hazardous waste, it is separately stored with label. The Group handles hazardous waste according to the latest policy of "National Hazardous Waste Inventory". The Group has engaged a qualified waste collector to handle and collect the hazardous waste produced in the aerosol product manufacturing process so as to minimise the impact on the environment. There is no hazardous waste produced for our clean energy business.

For production and general wastes, the Group has formulated effective measures to reduce the production amount. For example, the Group encourages paperless operation to reduce printing and photocopying as much as possible. The employees are encouraged to use double-sided printing and bring their own cups to the meeting to minimise the use of paper and paper cups. For clean energy business, the non-hazardous waste generated is insignificant.

1 The calculation of the greenhouse gas emission is based on the "Corporate Accounting and Reporting Standard" from Greenhouse Gas Protocol.

2 Scope 1: Direct emission from sources that are owned or controlled by the Group.

3 Scope 2: Indirect emissions from purchased electricity consumed by the Group.

* As clean energy business was acquired by the Company in July 2017, the data for clean energy business only covers July 2017 to December 2017.

^ Intensity at Group level is not applicable as it involves different business segments whose nature is not comparable to each other.

The wastes generated by the Group during the reporting period are as follows:

Wastes disposal	Unit	Aerosol business	Clean energy business*	Total
Hazardous waste	tonnes	6.83	–	6.83
Hazardous waste intensity	Aerosol business: tonnes/tonnes of production	0.00012	–	N/A^
Non-hazardous waste	tonnes	216.00	–	216.00
Non-hazardous waste intensity	Aerosol business: tonnes/tonnes of production	0.00390	–	N/A^

Wastewater

There is wastewater treatment facility in the Group's aerosol business. The wastewater generated during the production process needs to be treated before discharging to ensure it complies with the "Integrated Wastewater Discharge Standard (GB8978-1996)". During the reporting period, around 7,500 m^3 of wastewater was treated and discharged. Wastewater is strictly forbidden to be mixed with rainwater. They are collected by two separate systems to prevent pollution to ground water.

Use of resources

The Group has adopted a set of guidelines to achieve efficient use of energy, water and other materials for long-term sustainability.

Energy

To manage energy use and reduce energy consumption, the Group has established policies and procedures, including "Energy Saving and Emission Reduction Control Plan" to achieve these goals. The Group believes that increasing environmental awareness is the basis for energy reduction initiative, so the Group carries out extensive promotion and educational activities in order to enhance employees' awareness. Besides, the Group has implemented different measures to reduce energy consumption. For example, the temperature of air-conditioners should not be set below 26 degrees Celsius in summer and set above 20 degrees Celsius in winter. Smart use of lighting is encouraged by using natural light in day time to reduce the usage of lighting. Empty running of equipment, such as printers is not recommended and our staff are encouraged to switch off all the electronic appliances when leaving the office.

* As clean energy business was acquired by the Company in July 2017, the data for clean energy business only covers July 2017 to December 2017.

^ Intensity at Group level is not applicable as it involves different business segments whose nature is not comparable to each other.

Apart from measures to reduce the use of electricity, the Group also sets guideline to effectively use the vehicles to reduce the fuel consumption. The Group chooses fuel-saving vehicles with high emission standards and improves the vehicles utilisation by planning the travelling routes before staff use and goods delivery.

The Group is planning to develop a long-term mechanism for energy management with the aim to review energy consumption and set target for energy reduction. With all these measures and energy planning, the Group hopes to use energy more effectively and efficiently to save resources for the environment. During the reporting period, the energy consumption of the Group is as follows:

Energy consumption	**Unit**	**Aerosol business**	**Clean energy business***	**Total**
Purchased electricity	kWh in '000s	2,707.24	2,910.00	5,617.24
Petrol	kWh in '000s	375.31	5.95	381.26
Diesel	kWh in '000s	286.76	–	286.76
Liquefied petroleum gas (LPG)	kWh in '000s	80.84	–	80.84
Total energy consumption	kWh in '000s	3,450.15	2,915.95	6,366.10
Energy intensity	Aerosol business: kWh in '000s/ tonnes of production Clean energy business: kWh in '000s/m^2	0.062	0.010	N/A^

* As clean energy business was acquired by the Company in July 2017, the data for clean energy business only covers July 2017 to December 2017.

^ Intensity at Group level is not applicable as it involves different business segments whose nature is not comparable to each other.

Water

Water is another important resource used for the daily operation. In order to save water, water taps should be turned off right after using. Running, dripping and long-flowing water are avoided. In the manufacturing process of the aerosol business, the Group reuses water to reduce the water usage and closely checks the water recycling system to prevent leakage and wastewater discharged to the environment. For clean energy business, the operation does not involve any water consumption. The water consumption of the Group during the reporting period is as follow:

Water	Unit	Aerosol business	Clean energy business*	Total
Water consumption	m^3	106,624	–	106,624
Water intensity	Aerosol business: m^3/tonnes of production	1.93	–	N/A^

Packaging Materials

The major packaging materials used in our aerosol business are paper, metal and plastic, while there is no packaging material involved in our clean energy business. The consumption of the packaging materials by the Group is summarised below.

Packaging materials	Unit	Aerosol business	Clean energy business*	Total
Paper	tonnes	3,067.06	–	3,067.06
Plastic	tonnes	1,337.72	–	1,337.72
Metal	tonnes	8,363.03	–	8,363.03
Intensity	Aerosol business: tonnes/tonnes of production	0.23	–	N/A^

* As clean energy business was acquired by the Company in July 2017, the data for clean energy business only covers July 2017 to December 2017.

^ Intensity at Group level is not applicable as it involves different business segments whose nature is not comparable to each other.

The environment and natural resources

To minimise the significant impact on the environment and natural resources, the Group has established "Environmental Management System" to outline procedures on planning and execution of environmental control programme in the operation. We comply with relevant laws and regulations, including "Environmental Protection Law of the PRC". We have engaged a qualified consultancy company to conduct environmental impact assessment on our technology transformation project of annual production of 60 million aerosol products. The assessment can identify and assess the potential impact on the environment and enable us to formulate environmental protection measures to minimise impact on the environment. Besides, the Group has made achievement in sustainable development in the industry. Zhejiang Ludao Technology Co., Ltd., was awarded "浙江省清潔生產階段成果企業". This shows that the management of the Group effectively implements measures for good environmental protection.

SOCIAL ASPECTS

Employment and labour practices

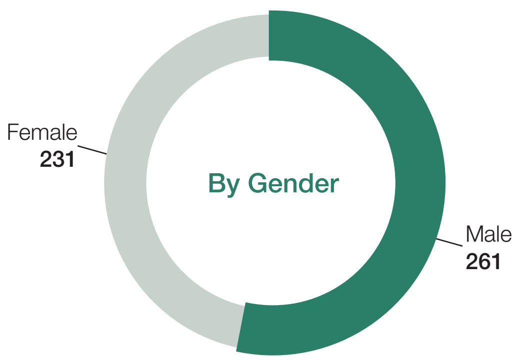
Employment

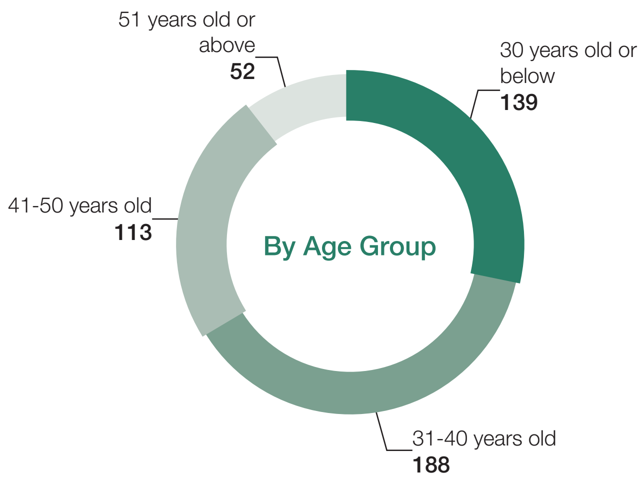
The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide a good working environment to employees where they can have a safe and healthy workplace to engage and perform to the satisfaction of the Group. These policies and procedures not only ensure the Group's compliance of the relevant labour laws and regulations in places where it operates, but also sets out the Group's standard of staff recruitment, promotion guidelines, remuneration scale, working hours, rest breaks, holidays as well as termination of employment and compensation matters. Labour contracts or employment agreements are entered between the Group and the employees, which clearly state the relevant details in order to safeguard mutual interest and benefits. Besides, the Group has established various communication channels with its employees, including staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication, etc with the aim to understand their needs. Specific form of communication can also be made subject to the communication content and characteristics of participants.

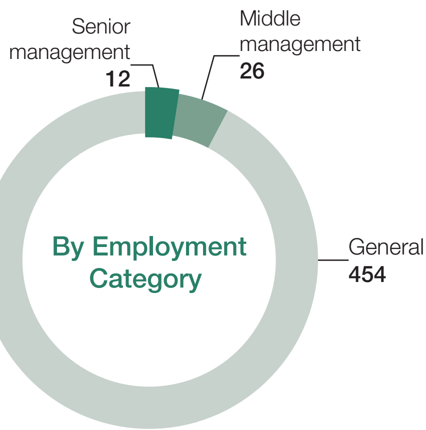
The Group respects the employees' rights. All of the employees of the Group are treated equally. Their employment, remuneration and promotion are not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status. The Group formulates and regularly reviews the human resources plan in accordance with its development plan and strategic goals. Apart from making external recruitment plan for continuous injection of fresh blood to the Group, the Group forms internal staff training and talent reserve plan, and establishes all-level position selection and evaluation system to optimise human resources allocation and internal promotion in order to nurture prospective employees to be future leaders in their respective expertise areas.

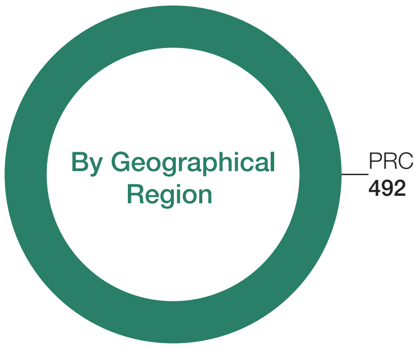
The Group strictly complies with the Labour Law and The Labour Contract Law of the PRC without violating the relevant rules and regulations including the workers' wages and overtime payments. Related benefits are made with reference to the local minimum wage standard. Holidays and statutory paid leaves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

At the end of the reporting period, the employee composition (in number of staff) by gender, employee category, age group and geographical region are as follows:









The employee turnover rates by gender, age group and geographical region at the end of the reporting period are as follows:

Employment	**Turnover rates** *(%)*
By gender[4]	
– Male	33.72
– Female	31.17
By age group[5]	
– 30 years old or below	55.40
– 31-40 years old	26.06
– 41-50 years old	27.43
– 51 years old or above	5.77
By geographical region[6]	
– PRC	32.52
Overall	**32.52**

4 Turnover rate refers to total number of employee turnover of the gender group per the total number of employees of the corresponding gender group at the end of the year.

5 Turnover rate refers to total number of employee turnover of the age group per the total number of employees of the corresponding age group at the end of the year.

6 Turnover rate refers to total number of employee turnover of the geographical region group per the total number of employees of the corresponding geographical region at the end of the year.

Health and safety

The Group is committed to providing a safe working environment for all staff. The Group has established "Occupational Health Management System" which is in accordance with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases. The system can prevent, control and eliminate any occupational diseases. In order to ensure occupational safety and health of our employees in the production process, the Group has adopted the following key measures:

- Every employee must receive health and safety training before performing the job duty. Periodic self-rescue training courses are provided to employees.

- First aid equipment, such as emergency showers and eyewash facilities, is installed in the production sites. It is checked regularly to ensure that it is in good condition.

- Personal protective equipment is provided to employees.

- Annual medical check is offered to employees.

In addition, the Group has set up environmental, health and safety ("EHS") committee to regularly monitor the EHS situation and the result is recorded for reference. If any serious incident related health and safety is detected, an analysis is carried out promptly and measures are formulated to prevent similar incident from happening. Our contractors are expected to follow the same health and safety standard when working with us. They are offered with training before starting the work.

Development and training

The Group believes that retaining talents is a core part of sustainability development to strengthen its competitiveness. In order to enable staff to keep abreast of the aerosol industry and maintain high-quality organisation structure, the Group offers various training programs to employees according to their job positions, and earmarks funds for staff training based on operation needs and annual training plan each year. Training is mainly focus on safety and product knowledge which are our primarily concern as a manufacturing company. 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. Continuous assessment is conducted to keep track on the performance of employees. Based on the 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 trainings and examinations and seniors' recommendations. During the reporting period, the Group provided over 23,000 hours (2016: 8,000 hours) of internal and external training to its employees.

The detailed breakdown of the percentage of employees trained and the average training hours completed per employee by gender and employee category is as follows:

Training	**Percentage of employee trained** *(%)*
By gender	
– Male	93.87
– Female	99.57
By employment category	
– Senior management	91.67
– Middle management	96.15
– General	96.70

Training hours	**Average training hours** *(hours/employee)*
By gender	
– Male	48.66
– Female	45.56
By employment category	
– Senior management	51.67
– Middle management	62.31
– General	46.22

Labour standards

The Group strives to prohibit the use of child labour and forced labour in its operation. The Group strictly complies with the Labour Law and the Labour Contract Law of the PRC. According to the "Prohibition of Child Labour Control Procedure" of the Group, person under aged 16 is not allowed to work in the Group. The Group respects the right and freedom of employees as stipulated in "Prohibition of forced labour control procedure". During the reporting period, the Group did not have any cases related to child labour or forced labour.

OPERATING PRACTICES

Supply chain management

The Group relies on suppliers to supply different production materials, including raw materials, packaging materials, etc. We are aware of the potential environmental and social risks associated with our supply chain and committed to minimising such risks in the cooperation with our suppliers. Therefore, we have implemented a strict selection process on our suppliers, taking into consideration the elements such as supplier qualification, business reputation, past performance and price. The Group closely monitors and performs annual review on the performance of its suppliers to ensure the product quality. For those products that do not meet the product quality and safety requirement, they will be specifically distinguished and handled to avoid misuse and delivery. We maintain a long-term cooperation with our suppliers based on the result of annual review.

The geographical distribution of major suppliers is as follows:

Geographical region	Number of suppliers
Mainland China	227
– Zhejiang Province	93
– Shanghai	39
– Guangdong Province	42
– Jiangsu Province	34
– Beijing	1
– Hebei Province	2
– Anhui Province	4
– Fujian Province	2
– Liaoning Province	1
– Shandong Province	5
– Jiangxi Province	2
– Tianjin	1
– Henan Province	1

Product responsibility

To continuously improve the product quality for pursuing customer satisfaction of our products, the Group has established quality management system in accordance with the requirements of ISO 9001:2008. All products produced by the Group undergo relevant safety tests with appropriate safety labels affixed on the packaging. In addition, the Group has implemented a thorough "Recall Control Procedure" to protect the interest of the customer and to reduce the risk associated with product quality and safety. 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 preventing and monitoring any malpractice or unethical actions. The Group has established stringent policies, including "Anti-corruption and Anti-bribery Control Procedure" 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. Employees are required to sign a "Commitment to Anti-bribery/Anti-corruption" to declare his/her compliance with the related laws. Our customers, suppliers and contractors are expected to follow the same standard when working with us. During the reporting period, the Group was in strict compliance with the related laws and regulations and did not have any cases of corruption-related litigation.

COMMUNITY

Community investment

The Group is committed to contributing to the society and making its own efforts in the development of the community. Contribution to and maintaining harmonious relationship with the community in the region of operation are crucial for the sustainable development. The Group has established "Community Investment Policy", which aims to build trust and stable relationship with its stakeholders. During the reporting period, the management and the employees of the Group participated in assisting and supporting the local community development. The details of the charitable events are listed as below:

- Donation of materials, such as toys, books, school bags, learning machines, bicycles, etc to primary schools in rural area to show our care to the children in need. Donation of these materials can improve their learning environment and entertainment facilities.

- Donation of RMB50,000 to the Taizhou Charity Federation（台州市慈善總會）to support for the Taizhou fire service community fund（台州消防公益基金）.

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Directors' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2017.

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 2017, 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 2017 are set out in the consolidated statement of comprehensive income on page 70.

The Board resolved not to recommend any final dividend for the year ended 31 December 2017.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years is set out on page 144 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 Thursday, 17 May 2018 to Wednesday, 23 May 2018, 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, 23 May 2018, 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 Wednesday, 16 May 2018.

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 15 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 25 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 37 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB144.2 million (2016 RMB161.7 million). This includes the Company's share premium account of approximately RMB149.9 million as at 31 December 2017 (2016: 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:

	2017 %	2016 %
Sales		
– the largest customer	26.2	20.8
– five largest customers combined	62.0	61.4
Purchases		
– the largest supplier	26.4	28.5
– five largest suppliers combined	53.0	51.8

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 2017.

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. Tan Xiangdong *(Deputy chairman)* (appointed on 22 May 2017)
Mr. Chen Baoyuan
Ms. Pan Yili
Ms. Wang Jinfei (resigned on 26 January 2017)
Mr. Wang Xiaobing

Non-executive Director
Mr. Tian Tingshan (appointed on 20 July 2017)

Independent non-executive Directors
Mr. Chan Yin Tsung
Ms. Cho Mei Ting (resigned on 7 July 2017)
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean (appointed on 7 July 2017)

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.

Directors' Report

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. Tan Xiangdong, Ms. Yau Kit Kuen Jean and Mr. Tian Tingshan whom were appointed as an executive director, an independent non-executive director and a non-executive director by the Board effective on 22 May 2017, 7 July 2017 and 20 July 2017 respectively, shall retires from office and, being eligible, offers themselves 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. Mr. Yu Yuerong, Ms. Pan Yili and Mr. Wang Xiaobing 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) and Rule 3.10A of the Listing Rules, the Board currently comprises three independent non-executive Directors, representing 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 principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the Shareholders passed on 16 September 2013 are set out below:

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that Eligible Participants (as defined below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives:

(a) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of our Group; and

(b) attract and retain or otherwise maintain ongoing business relationships with the Eligible participants whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, "Eligible Participants" means any person who satisfies the eligibility criteria in below. The Board may at its discretion grant options to:

(i) any Eligible Employees. "Eligible Employees" means employees (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital ("Invested Entity");

(ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;

(iii) any supplier of goods or services to any member of our Group or any Invested Entity;

(iv) any customer of any member of our Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, options may be granted to any company wholly owned by one or more Eligible Participants.

The basis of eligibility of any participant to be granted any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK$1.00 (or such other nominal sum in any currency as the Board may determine) in favor of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Eligible Participant.

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.

The Share Option Scheme was adopted for a period of 10 years commencing from 16 September 2013 and will remain in force until 15 September 2023.

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 Share Option Scheme for the Reporting Period is as follows:

Name of grantees	Number of share options Outstanding as at 1 January 2017	Granted during the period	Lapsed/ Cancelled during the period	Exercised during the period	Outstanding as at 31 December 2017	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 2017 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 2017, 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			
Name of Directors	Personal interests/ Interest of spouse	Interests of a controlled corporation	Total	Approximate percentage of interests in the Company *(Note 2)*
Mr. Yu	–	222,276,000 *(Note 2)*	222,276,000	46.31%
Chen Baoyuan	600,000	–	600,000	0.125%
Mr. Wang Xiaobing	1,200,000	–	1,200,000	0.25%

Notes:

(1) 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 2017.

(2) These shares are held by Ludao Investments, which is wholly and beneficially owned by Mr. Yu. As Ms. Wang Jinfei is the spouse of Mr. Yu, Ms. Wang Jinfei is deemed to be interested in all the shares held by Mr. Yu (through Ludao Investments) by virtue of the SFO.

Save as disclosed above, as at 31 December 2017, 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 2017, 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	222,276,000	46.31%
Ms. Wang Jinfei *(Note 3)*	Interest of spouse	222,276,000	46.31%

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 2017.

(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. Ms. Wang Jinfei is the spouse of Mr. Yu and is therefore deemed to be interested in all the Shares held by Mr. Yu (through Ludao Investments) by virtue of the SFO.

Save as disclosed above, 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 2017.

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 24, 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.

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

On 12 February 2018, the Company and Mr. Yu (the "Guarantor") has entered into a placing agreement with Head & Shoulders Securities Limited (the "Placing Agent"), pursuant to which the Placing Agent has conditionally agreed to procure, on a best efforts basis, placees to subscribe the two-year 6.5% coupon unlisted bonds to be issued by the Company.

Further details of the bond placement are set out in the Company's announcement dated 12 February 2018.

Save as disclosed above and in the paragraph headed "MATERIAL ACQUISITION" as disclosed in Management Discussion and Analysis section, there is no significant events after the reporting period.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 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, 28 March 2018

Independent Auditor's Report

pwc 羅兵咸永道

To the Shareholders of China Ludao Technology Company Limited
(incorporated in 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 70 to 143, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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.

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Independent Auditor's Report

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.

Key audit matters identified in our audit are summarised as follows:

- Recoverability of trade receivables
- Acquisition of a joint venture

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables Refer to note 4 "critical accounting estimates and judgments" 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 2017, gross trade receivables balance amounted to RMB105 million and the top five customers accounted for 74% of the balance. The remaining balances spread among a large number of customers. The Group's management assessed the recoverability of trade receivables based on the aging analysis and payment history. 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 judgments and estimations 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 confirmations. • On a sampling basis, we checked the accuracy of the aging profile of the trade receivables against sales invoices, and customers' payment patterns and subsequent settlements against bank records. • Where cash had not been received subsequent to year end date from the customers, we discussed with management to obtain explanations for balances remained outstanding. We challenged management as to the recoverability of the unsettled amounts, corroborating explanations with customer contracts and correspondence with the customers. Based on the above, we found management's judgments and estimates in respect of the recoverability of trade receivables were supported by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Acquisition of a joint venture Refer to note 4 "Critical accounting estimates and judgments" and note 13 "Investment in a joint venture" to the consolidated financial statements. During the year, the Group completed the acquisition of 50% equity interest in Illustrious Success Limited (the "Illustrious Acquisition") for a consideration of RMB52 million, and a goodwill of RMB37 million arising from the Illustrious Acquisition was included in the investment in a joint venture at the date of acquisition. The Group engaged an independent valuer to value the identifiable assets and liabilities acquired, including the valuation of an intangible asset on customer contracts amounting to RMB51 million. We focus on this area as the impact of the acquisition is significant and the determination of the fair value of the intangible asset using discounted cash flow required management's assumptions and estimates on revenue growth rates, gross margins and discount rates. Any significant changes in these key assumptions may give rise to material changes in the Group's share of fair value of identifiable net assets including the intangible asset, which would directly impact the amount of goodwill recognised.	We have performed the following procedures to assess the Illustrious Acquisition: • We obtained and reviewed the valuation report of Illustrious Success Limited at the acquisition date. We evaluated the competence, experience and objectivity of the external valuer engaged by the Group. • We compared the valuation methodologies used in deriving the fair value of the identifiable assets and liabilities at acquisition date to generally accepted market practices; and reviewed the integrity of the inputs used in the models. • In respect of the key assumptions of cash flow forecasts, we have performed the following procedures with the assistance of our internal valuation expert: • Evaluated the reasonableness of revenue growth rates and gross margins with reference to the historical performance and the latest budgets of Illustrious Success Limited as well as market data based on our knowledge of the business and industry trend. • Assessed the reasonableness of the discount rates used by management, with reference to the current market risk-free rate of interest and the industry specific risk factors. • Checked and reviewed the service contracts signed with customers to assess the enforceability. • We recalculated the mathematical accuracy of the amount of goodwill arising from the acquisition. We found that the assumptions and estimations applied by management in accounting for the Illustrious Acquisition 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, 28 March 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

		Year ended 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
Revenue	*6*	**395,741**	274,232
Cost of sales	*7*	**(307,346)**	(196,990)
Gross profit		**88,395**	77,242
Other income	*6*	**1,828**	559
Other (loss)/gains – net	*6*	**(960)**	3,849
Selling expenses	*7*	**(18,608)**	(21,612)
Administrative expenses	*7*	**(41,196)**	(35,817)
Operating profit		**29,459**	24,221
Finance income	*9*	**2,027**	3,626
Finance costs	*9*	**(6,808)**	(69)
Finance (costs)/income – net	*9*	**(4,781)**	3,557
Share of results of a joint venture	*13*	**2,054**	–
Profit before income tax		**26,732**	27,778
Income tax expense	*11*	**(4,882)**	(4,496)
Profit for the year		**21,850**	23,282
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(583)**	260
Total comprehensive income for the year attributable to the owners of the Company		**21,267**	23,542
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	*12*	**0.05**	*0.05*

The notes on pages 75 to 143 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Investment in a joint venture	*13*	**54,551**	–
Land use rights	*14*	**5,186**	5,310
Property, plant and equipment	*15*	**96,237**	89,609
Investment property	*16*	**7,900**	6,400
Intangible assets	*17*	**361**	466
Deferred income tax assets		**352**	372
Prepayments for investment	*18*	**70,219**	–
Prepayments for property, plant and equipment		**2,409**	3,917
		237,215	106,074
Current assets			
Inventories	*19*	**56,029**	37,723
Trade and other receivables	*20*	**181,821**	154,055
Financial assets at fair-value through profit or loss	*21*	**–**	19,240
Cash and cash equivalents	*22*	**54,268**	25,851
Short-term bank deposits	*22*	**88,139**	81,100
Pledged bank deposits	*23*	**23,198**	14,371
		403,455	332,340
Total assets		**640,670**	438,414
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*25*	**3,801**	3,801
Share premium	*25*	**134,143**	134,143
Other reserves	*26*	**60,080**	78,303
Retained earnings		**158,896**	119,406
Total equity		**356,920**	335,653

Consolidated Balance Sheet

As at 31 December 2017

		As at 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Bonds	*30*	**46,650**	–
Deferred government grants	*28*	**875**	1,010
Bank borrowings	*31*	**–**	1,284
Deferred income tax liabilities		**377**	152
		47,902	2,446
Current liabilities			
Trade and other payables	*29*	**140,775**	99,230
Current income tax liabilities		**394**	178
Bank borrowings	*31*	**44,602**	907
Loans from a third party	*32*	**50,077**	–
		235,848	100,315
Total liabilities		**283,750**	102,761
Total equity and liabilities		**640,670**	438,414

The notes on pages 75 to 143 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 70 to 143 were approved by the Board of Directors on 28 March 2018 and were signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2016	3,801	134,143	75,235	98,932	312,111
Comprehensive income					
Profit for the 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
Balance at 1 January 2017	3,801	134,143	78,303	119,406	335,653
Comprehensive income					
Profit for the year	–	–	–	21,850	21,850
Currency translation differences	–	–	(583)	–	(583)
Total comprehensive income	–	–	(583)	21,850	21,267
Transaction with owners					
Lapse of share options	–	–	(20,928)	20,928	–
Profit appropriation	–	–	3,288	(3,288)	–
Balance at 31 December 2017	3,801	134,143	60,080	158,896	356,920

The notes on pages 75 to 143 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	*34*	**11,015**	12,830
Interest paid		**(5,018)**	(69)
Income tax paid		**(4,419)**	(4,750)
Net cash generated from operating activities		**1,578**	8,011
Cash flows from investing activities			
Payment for acquisition of joint venture	*13*	**(52,000)**	–
Payment for costs on acquisition of a joint venture	*13*	**(497)**	–
Prepayment for investment	*18*	**(70,219)**	–
Purchase of property, plant and equipment		**(12,461)**	(7,750)
Prepayment for property, plant and equipment		**–**	(1,082)
Proceeds from disposals of property, plant and equipment		**–**	97
Purchase of land use rights		**–**	(430)
Purchase of intangible assets		**(111)**	(128)
Purchase of investment properties		**–**	(5,372)
Purchase of financial assets at fair value through profit or loss		**–**	(19,240)
Proceeds from disposal of financial assets at fair value through profit or loss		**19,240**	–
(Increase)/decrease of pledged bank deposits		**(8,827)**	4,340
Increase of short-term bank deposits		**(7,039)**	(81,100)
Interest received		**2,027**	1,209
Net cash used in from investing activities		**(129,887)**	(109,456)
Cash flows from financing activities			
Proceeds from issue of bonds, net of issuance costs		**44,386**	–
Proceeds from bank borrowings		**49,602**	2,191
Loans from a third party		**50,077**	–
Repayments of bank borrowings		**(7,191)**	–
Proceeds from notes payable		**162,413**	114,670
Repayments of notes payable		**(142,177)**	(110,535)
Net cash generated from financing activities		**157,110**	6,326
Net increase/(decrease) in cash and cash equivalents		**28,801**	(95,119)
Cash and cash equivalents at beginning of the year	*22*	**25,851**	120,819
Currency translation differences		**(384)**	151
Cash and cash equivalents at end of the year	*22*	**54,268**	25,851

The notes on pages 75 to 143 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 46.3% 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 28 March 2018.

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) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Annual improvements to HKFRSs 2014 – 2016 cycle
- Disclosure initiative – Amendments to HKAS 7, and
- Recognition of deferred tax assets for unrealised losses – Amendments to HKAS 12

The adoption of these amendments did not have any impact on the current year or any prior year and is not likely to affect future years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure *(Continued)*

(b) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) HKFRS 9, "Financial instruments"

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities,as at 31 December 2017, all of the Group's financial assets and financial liabilities were carried at amortised cost, therefore, management does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and financial liabilities.

As at 31 December 2017, the Group does not have any hedging instruments, and does not expect a significant impact arising from the new hedge accounting rules on the accounting for its hedging relationships.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(i) HKFRS 9, "Financial instruments" *(Continued)*

Impact *(Continued)*

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income ("FVOCI"), contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. As the Group's financial assets are mainly trade receivables, management does not expect the adoption of ECL impairment model will have significant impact on the Group.

Date of adoption by the Group

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) HKFRS 15, "Revenue from contracts with customers"

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and related literature.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(ii) HKFRS 15, "Revenue from contracts with customers" *(Continued)*

Nature of change *(Continued)*

The new standards is based on the principle that revenue is recognised when control of a good or service is transferred to a customer.

The standard permits either a full retrospective or a modified restrospective approach for the adoption.

Impact

Management has reassessed its business model and contract terms to assess the effects of applying the new standard on the Group's financial statements and expected that the implementation of the HKFRS 15 would not result in any significant impact on the Group's financial position and results of operations.

Date of adoption by the Group

The adoption of this new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(iii) HKFRS 16, "Leases"

Nature of change

HKFRS 16 will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB7,899,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(iii) HKFRS 16, "Leases" *(Continued)*

Date of adoption by Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.1 Merger accounting for Reorganisation (Continued)

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.

2.2.2 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Subsidiaries *(Continued)*

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains unless 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 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be joint venture. Joint venture is accounted for using the equity method.

Under the equity method of accounting, interests in joint venture are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to 'share of results of a joint venture' in profit or loss.

Unrealised gains on transactions between the Group and its joint venture is eliminated to the extent of the Group's interests in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.4 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.

2.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(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 (loss)/gains – net’.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Land use rights

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

2.6 Property, plant and equipment

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

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

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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

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 (loss)/gains – net' in the consolidated statement of comprehensive income.

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 (loss)/gains – net'.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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;

– 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.11 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

(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, pledged bank deposits, short-term 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

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.

2.12 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.18 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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:

- 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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Share based payments *(Continued)*

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

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).

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(b) Technical service fee

Revenue from technical service is recognised in the accounting period in which the services are rendered in accordance with the contracts.

(c) 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.

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Assets		
HKD and USD	**98,720**	75,960
Liabilities		
HKD and USD	**107,960**	1,954

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) *Foreign exchange risk (Continued)*

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	
	2017	2016
	RMB'000	*RMB'000*
5% appreciation in exchange rate against HKD and USD		
Increase/(Decrease) in the profit for the year	**462**	(3,700)

(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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 2017, the Group had certain concentration of credit risk as 74% (2016: 78%) 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 and include interest.

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 2017				
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers)	41,172	85,606	–	126,778
Bank borrowings	277	45,845	–	46,122
Loans from a third party	–	54,083	–	54,083
Bonds	–	2,959	52,277	55,236
	41,449	188,493	52,277	282,219
As at 31 December 2016				
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers)	32,520	57,749	–	90,269
Bank borrowings	228	683	1,454	2,365
	32,748	58,432	1,454	92,634

(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 on the Group given the discounting impact as a result of a shift of the fixed interest rate on the borrowings is not material.

As at 31 December 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
Bank borrowings	**44,602**	2,191
Loans from a third party	**50,077**	–
Notes payable	**82,960**	62,724
Bonds	**46,650**	–
Total borrowings	**224,289**	64,915
Total equity	**356,920**	335,653
Gearing ratio	**63%**	19%

The significant increase of gearing ratio was primarily due to the increase of borrowings for financing business acquisitions during the year.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The carrying amounts of the Group's current financial assets and liabilities approximate to their fair values as the impact of discounting is not significant.

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).

See Note 16 for disclosures of the investment property that is measured at fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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.

(b) Acquisition of a joint venture

The Group completed the acquisition of a joint venture during the year and engaged an independent valuer to value the identifiable assets and liabilities acquired in the joint venture. Certain customer contracts of RMB51,000,000 were recognised as an intangible asset and reflected in the underlying financial statements of the joint venture for equity accounting, and a goodwill of RMB37,097,000 arising from the acquisition was included in the investment in a joint venture at the date of acquisition. The determination of the fair value of the intangible assets using discounted cash flow required management's assumptions and estimates on revenue growth rates, gross margins and discount rates. Any significant changes in these key assumptions may give rise to material changes in the Group's share of fair value of identifiable net assets including the intangible asset, which would directly impact the amount of goodwill recognised.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) 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.

(d) 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.

(e) Fair value of investment property

Judgment and assumptions are required in assessing the fair value of the investment property. Details of the judgment and assumptions are disclosed in note 16.

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 mainly 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. Result of investment activities are not material to be disclosed as a separate reportable operating segment. 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

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**96,401**	61,541
United States of America	**166,220**	135,470
Europe	**12,628**	15,243
Japan	**43,071**	6,170
Chile	**55,616**	28,426
Others	**21,805**	27,382
	395,741	274,232

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 2017 and 2016 consist of land use rights, property, plant and equipment, intangible assets and investment property which are mainly located in the PRC.

5 SEGMENT INFORMATION *(Continued)*

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:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**103,672**	56,977
Customer B	**53,772**	28,017
Customer C	**33,962**	–
Customer D	**30,329**	29,934
Customer E	**23,875**	21,617
	245,610	136,545

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

	2017 RMB'000	2016 RMB'000
Revenue		
Sales of goods	**395,741**	274,232
Other income		
Government grants	**607**	447
Technical service fee	**1,209**	117
Others	**12**	(5)
	1,828	559
Other (loss)/gains – net		
Foreign exchange (loss)/gain	**(2,785)**	2,608
Fair value gain on investment property	**1,500**	1,028
Others	**325**	213
	(960)	3,849

7 EXPENSES BY NATURE

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

	2017 *RMB'000*	2016 *RMB'000*
Depreciation and amortisation *(Note 14,15,17)*	**7,621**	6,530
Employee benefit expenses, excluding amount included in share option expenses and research and development costs *(Note 8)*	**33,080**	24,751
Raw materials used	**273,530**	181,965
Changes in inventories of finished goods and work in progress	**11,205**	(1,150)
Water and electricity expenditures	**3,530**	3,111
Transportation and travelling expenses	**13,406**	16,404
Telecommunication expenses	**543**	482
Advertising expenses	**600**	820
Other tax expenses	**2,556**	2,259
Research and development costs		
– Employee benefit expenses *(Note 8)*	**5,592**	4,469
– Materials and others, excluding depreciation and amortisation	**5,030**	3,663
Auditor's remuneration		
– Audit services	**1,756**	1,513
Entertainment expenses	**1,914**	1,134
Operating lease expenses	**2,239**	1,335
Professional services fees	**1,924**	1,313
Other expenses	**2,624**	5,820
Total	**367,150**	254,419

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2017 *RMB'000*	2016 *RMB'000*
Wages, allowances and bonus	**34,710**	25,616
Retirement scheme contribution	**2,151**	1,707
Others	**1,811**	1,897
	38,672	29,220

(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 2017 (2016: 22%). It is the local government's 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 three (2016: four) directors whose emoluments are reflected in the analysis in Note 38. The emoluments paid to the remaining two individuals (2016: one) during the year are as follows:

	2017 *RMB'000*	2016 *RMB'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**947**	158
Retirement scheme contribution	**22**	4
	969	162

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

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

	Number of individuals	
	2017	2016
Emoluments bands		
Nil to HKD1,000,000	**2**	1

9 FINANCE (COSTS)/INCOME – NET

	2017 *RMB'000*	2016 *RMB'000*
Foreign exchange gain on cash and cash equivalent	**–**	2,417
Interest income	**2,027**	1,209
Finance income	**2,027**	3,626
Foreign exchange loss	**(1,790)**	–
Interest expense		
– Bonds	**(2,348)**	–
– Bank borrowings	**(677)**	(69)
– Other loans	**(1,993)**	–
	(6,808)	(69)
Finance (costs)/income – net	**(4,781)**	3,557

10 TOTAL FOREIGN EXCHANGE

	2017	2016
	RMB'000	*RMB'000*
Net finance (expense)/income *(Note 9)*	**(1,790)**	2,417
Other (loss)/gains *(Note 6)*	**(2,785)**	2,608
Total	**(4,575)**	5,025

11 INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
Current income tax	**4,637**	4,322
Deferred income tax	**245**	174
	4,882	4,496

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 profits tax in Hong Kong during the year (2016: 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.

11 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Group as follows:

	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**26,732**	27,778
Less: share of results of a joint venture	**(2,054)**	–
	24,678	27,778
Tax calculated at the tax rate of 15% (2016: 15%)	**3,702**	4,167
Additional research and development deductible expenses	**(844)**	(660)
Expenses not deductible for tax purposes	**2,024**	989
	4,882	4,496

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 2017, the Group did not recognise deferred tax liabilities of RMB18,428,000 (2016: RMB15,468,000) on RMB184,280,000 (2016: RMB154,684,000) 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.

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.

	2017	2016
Profit attributable to owners of the Company (RMB'000)	**21,850**	23,282
Weighted average number of ordinary shares in issue (thousands of shares)	**480,000**	480,000
Basic earnings per share (RMB per share)	**0.05**	0.05

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 antidilutive. Therefore, the diluted earnings per share of the Company equals the basic earnings per share.

13 INVESTMENT IN A JOINT VENTURE

	2017 *RMB'000*	2016 *RMB'000*
As at 1 January	–	–
Additions	52,000	–
Cost related to acquisition	497	–
Share of results	2,054	–
As at 31 December	54,551	–

On 7 July 2017, the Group acquired 50% equity interest in Illustrious Success Limited ("Illustrious Success") for a consideration of RMB52,000,000.

Illustrious Success is a company limited by shares incorporated in British Virgin Island ("BVI") and mainly engaged in investment holding in the PRC. Its significant subsidiary, Chaoyang Guanghua New Energy and Technology Limited, is mainly engaged in supplying heat generated from thermal energy and sewage water in the PRC.

The proportion of ownership interest in Illustrious Success is the same as the proportion of voting rights held.

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

Summarised financial information for Illustrious Success Limited:

Summarised balance sheet

	31 December 2017 *RMB'000*
Current assets	
Cash and cash equivalents	5,740
Trade and other receivables	1,953
Total current assets	7,693
Non-current assets	
Payments for land use rights	1,750
Property, plant and equipment	21,733
Intangible asset (a)	50,057
Total non-current assets	73,540
Current liabilities	
Trade and other payables	21,030
Current income tax liabilities	1,963
Total current liabilities	22,993
Non-current liabilities	
Deferred income tax liabilities	12,072
Total non-current liabilities	12,072
Net assets	46,168
Less: non-controlling interests	(11,260)
Net assets attributable to owners of Illustrious Success	34,908

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

(a) The intangible asset represented customer contracts acquired at acquisition of the joint venture. Customer contracts are recognised at their fair value of RMB51,000,000 at the date of acquisition and are subsequently amortised on a units of production basis based on the timing of the contracts over their useful lives.

Summarised statement of comprehensive income

	From 7 July 2017 to 31 December 2017 *RMB'000*
Revenue	10,320
Depreciation and amortisation	(1,914)
Other operating expenses	(1,443)
Income tax expense	(1,785)
Profit from operations	5,178
Profit attributable to:	
Owners of Illustrious Success	4,108
Non-controlling interests of Illustrious Success	1,070
Other comprehensive income	–
Total comprehensive income	5,178
Total comprehensive income attributable to:	
Owners of Illustrious Success	4,108
Non-controlling interests of Illustrious Success	1,070
Group's share in %	50%
Share of results by the Group	2,054

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in Illustrious Success is as follows:

	From 7 July 2017 to 31 December 2017
	RMB'000
Opening net assets attributable to owners of Illustrious Success	30,800
Profit for the period	5,178
Closing net assets	35,978
Less: non-controlling interests	(1,070)
Closing net assets attributable to owners of Illustrious Success	34,908
Group's share in %	50%
Group's share	17,454
Goodwill	37,097
Carrying amount	54,551

14 LAND USE RIGHTS

	2017 RMB'000	2016 RMB'000
Opening net book amount	**5,310**	4,999
Additions	**–**	430
Amortisation *(Note 7)*	**(124)**	(119)
Closing net book amount	**5,186**	5,310

	2017 RMB'000	2016 RMB'000
Cost	**6,206**	6,206
Accumulated amortisation	**(1,020)**	(896)
Net book amount	**5,186**	5,310

The lease periods of land use rights are 50 years. As at 31 December 2017, the remaining lease periods of the Group's land use rights were 35 to 46 years (2016: 36 to 47 years).

As at 31 December 2017 and 2016, the Group's land use rights were pledged to secure notes payable (Note 29(b)).

15 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 2016						
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	(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
Year ended 31 December 2017						
Opening net book amount	58,736	22,335	5,192	3,280	66	89,609
Additions	1,280	1,243	9,018	858	1,510	13,909
Transfer	50	1,350	–	–	(1,400)	–
Depreciation *(Note 7)*	(3,154)	(2,676)	(834)	(617)	–	(7,281)
Closing net book amount	56,912	22,252	13,376	3,521	176	96,237
At 31 December 2017						
Cost	72,471	39,191	18,166	7,018	176	137,022
Accumulated depreciation	(15,559)	(16,939)	(4,790)	(3,497)	–	(40,785)
Net book amount	56,912	22,252	13,376	3,521	176	96,237

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged in:

	2017	2016
	RMB'000	*RMB'000*
Cost of sales	**3,134**	2,229
Administrative expenses	**4,133**	3,959
Selling expenses	**14**	22
Total	**7,281**	6,210

As at 31 December 2017, the Group's buildings with the carrying amount of RMB12,271,000 (2016: RMB12,703,000) were pledged to secure notes payable (Note 29(b)).

16 INVESTMENT PROPERTY

	2017	2016
	RMB'000	*RMB'000*
Opening balance at 1 January	**6,400**	–
Acquisition during the year	**–**	5,372
Fair value adjustment *(Note 6)*	**1,500**	1,028
Closing balance at 31 December	**7,900**	6,400

As at 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance (2016: 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.

16 INVESTMENT PROPERTY *(Continued)*

Valuation processes of the Group

The Group's investment property was valued at 31 December 2017 by APAC Asset Valuation and Consulting Limited, an independent and 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 2017	Valuation techniques	Unobservable inputs	Amount of unobservable inputs
Investment Property	7,900,000	Direction comparison method	Market price (RMB/square meter)	12,573

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

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

17 INTANGIBLE ASSETS

	Computer Software *RMB'000*	Patents *RMB'000*	Total *RMB'000*
At 1 January 2016			
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	(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
Year ended 31 December 2017			
Opening net book amount	291	175	466
Additions	111	–	111
Amortisation charge (Note 7)	(66)	(150)	(216)
Closing net book amount	336	25	361
At 31 December 2017			
Cost	638	750	1,388
Accumulated amortisation	(302)	(725)	(1,027)
Net book amount	336	25	361

Amortisation had been charged in administrative expenses.

18 PREPAYMENTS FOR INVESTMENT

During the year, the Group entered into a sale and purchase agreement with Perfect Century Group Limited (the "Vendor"), pursuant to which the Vendor agreed to sell and the Group agreed to purchase 25% equity interest of Ever Clever Group Limited ("Ever Clever"), which is principally engaged in heat supply business in the PRC, for a consideration of RMB160,000,000 (the "Ever Clever Acquisition").

The consideration shall be paid by the Group to the Vendor, subject to a profit guarantee adjustment, by way of (i) cash consideration of RMB112,000,000; (ii) allotment and issue of 11,800,000 consideration shares in the amount of RMB16,000,000 at an issue price of HKD1.60 per consideration share by the Company in favour of the Vendor; and (iii) issue of convertible bonds in the principal amount of RMB32,000,000 by the Company in favour of the Vendor.

As at 31 December 2017, the Group has paid RMB70,000,000 for the consideration and RMB219,000 for costs related to the acquisition.

19 INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**26,014**	18,913
Work in progress	**220**	898
Finished goods	**29,795**	17,912
Inventories – net	**56,029**	37,723

The cost of inventories included in cost of sales during the year ended 31 December 2017 amounted to RMB284,735,000 (2016: RMB180,815,000).

During the year, the Group did not make or reverse any provision for inventories (2016: Nil).

20 TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables, net (a)	**105,056**	88,349
Prepayments and deposits	**71,268**	62,074
Notes receivable	**–**	600
Other receivables	**5,497**	3,032
	181,821	154,055

20 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2017	2016
	RMB'000	*RMB'000*
RMB	**112,647**	96,532
USD	**65,366**	57,155
HKD	**3,808**	368
	181,821	154,055

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:

	2017	2016
	RMB'000	*RMB'000*
Up to 3 months	**69,860**	58,306
3 to 6 months	**29,070**	20,114
6 to 12 months	**5,040**	9,929
Over 12 months	**1,409**	291
	105,379	88,640
Impairment provision	**(323)**	(291)
	105,056	88,349

The Group's sales are mainly made to several major customers and there is a concentration of credit risk. Sales of goods to the top five customers constituted 62% (2016: 61%) of the Group's revenue for the year. They accounted for 74% (2016: 78%) of the gross trade receivable balances as at 31 December 2017.

20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

As at 31 December 2017, trade receivables of RMB6,126,000 (2016: RMB9,929,000) were past due but not considered impaired. These relate to a number of independent customers for whom there was no significant financial difficulty noted and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables is as follows:

	2017 ***RMB'000***	2016 *RMB'000*
6 to 12 months	**5,040**	9,929
Over 12 months	**1,086**	–
	6,126	9,929

As of 31 December 2017, trade receivables of RMB323,000 (2016: RMB291,000) 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

	2017 *RMB'000*	2016 *RMB'000*
Unlisted wealth management products – held-for-trading	–	19,240

The assets have been disposed of during the year.

22 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2017 *RMB'000*	2016 *RMB'000*
Cash at banks and in hand	142,407	106,951
Less: Short-term bank deposits	(88,139)	(81,100)
Cash and cash equivalents	54,268	25,851

Cash at banks and in hand are denominated in the following currencies:

	2017 *RMB'000*	2016 *RMB'000*
RMB	112,861	88,514
HKD	4,468	3,704
USD	25,078	14,733
	142,407	106,951

The weighted average interest rate for the short-term bank deposits of the Group with initial terms of more than 3 months but less than one year as at 31 December 2017 was 2.5% (2016: 2.13%) per of 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 placed as guarantee deposits for issuing notes payable (Note 29(b)).

As at 31 December 2017 the effective interest rate of pledged bank deposits was 1.53% (2016: 1.44%) per annum. All pledged bank deposits were denominated in RMB and kept with banks in the PRC.

24 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost		Assets at fair value through profit or loss		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 31 December						
Assets as per consolidated balance sheet						
Trade and other receivables excluding prepayments	**110,553**	91,981	**–**	–	**110,553**	91,981
Financial assets at fair value through profit or loss	**–**	–	**–**	19,240	**–**	19,240
Cash and cash equivalents	**54,268**	25,851	**–**	–	**54,268**	25,851
Short-term bank deposits	**88,139**	81,100	**–**	–	**88,139**	81,100
Pledged bank deposits	**23,198**	14,371	**–**	–	**23,198**	14,371
Total	**276,158**	213,303	**–**	19,240	**276,158**	232,543

	Liabilities at amortised cost	
	2017	2016
	RMB'000	*RMB'000*
At 31 December		
Liabilities as per consolidated balance sheet		
Bonds	**46,650**	–
Bank borrowings	**44,602**	2,191
Trade and other payables (excluding other taxes payable and payroll payable)	**131,377**	95,117
Loans from a third party	**50,077**	–
Total	**272,706**	97,308

25 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2017 and 2016	
	Number of shares *(thousands)*	*HK$'000*
Authorised Capital:		
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**

	Issued and fully paid: Share capital		Share premium
	Number of ordinary shares (of HKD0.01 each)	*RMB'000*	*RMB'000*
At 31 December 2016 and 31 December 2017	480,000,000	3,801	134,143

All shares issued rank pari passu against each other.

26 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 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 and 1 January 2017	8,986	28,029	18,147	2,213	20,928	78,303
Profit appropriation (a)	–	–	3,288	–	–	3,288
Lapse of share options	–	–	–	–	(20,928)	(20,928)
Currency translation differences	–	–	–	(583)	–	(583)
At 31 December 2017	8,986	28,029	21,435	1,630	–	60,080

(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 tax 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.

27 SHARE BASED PAYMENTS

Share options

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

The share options lapsed on 29 June 2017 and none of them have been exercised.

28 DEFERRED GOVERNMENT GRANTS

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**1,010**	1,155
Recognised to consolidated statement of comprehensive income	**(135)**	(145)
At 31 December	**875**	1,010

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

29 TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables (a)	**36,405**	24,435
Notes payable (b)	**82,960**	62,724
Advance receipts from customers	**4,599**	4,501
Other taxes payable	**6,455**	1,993
Accrued expenses	**5,157**	2,467
Other payables	**5,199**	3,110
	140,775	99,230

29 TRADE AND OTHER PAYABLES *(Continued)*

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

	2017 *RMB'000*	2016 *RMB'000*
RMB	**137,144**	97,276
HKD	**1,885**	382
USD	**1,746**	1,572
	140,775	99,230

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:

	2017 *RMB'000*	2016 *RMB'000*
Up to 3 months	**34,600**	20,881
3 to 6 months	**1,120**	143
6 to 12 months	**173**	2,370
Over 12 months	**512**	1,041
	36,405	24,435

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 14) and certain property, plant and equipment (Note 15) of the Group.

30 BONDS

	2017	2016
	RMB'000	*RMB'000*
Additions	**44,386**	–
Accrued interest	**2,348**	–
Currency translation difference	**(84)**	–
As at December 2017	**46,650**	–
Fair value	**45,692**	–

During the year, the Company issued 2-year bonds at total par value of HKD59,000,000 (equivalent to RMB49,318,100) with coupon rate of 6% per annum (the "2017 Bonds"). The total net proceeds after issuance costs were RMB44,386,290 and the effective interest rate is 11.91% per annum.

The Company may at any time before the maturity dates redeem the 2017 Bonds (in whole or in part) at 100% of the total principal amounts together with payment of interests accrued up to the date of such early redemption.

The fair value of 2017 Bonds is based on discounted cash flow using the market interest rates.

31 BANK BORROWINGS

	2017 *RMB'000*	2016 *RMB'000*
Non-current		
Bank borrowings	-	1,284
Current		
Bank borrowings	44,602	907
	44,602	2,191

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.

The annual weighted average effective interest rate as at 31 December 2017 was 3.82% (2016: 5.46%).

The carrying amounts of bank borrowings are denominated in the following currencies:

	2017 *RMB'000*	2016 *RMB'000*
USD	32,602	-
RMB	12,000	2,191
	44,602	2,191

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

32 LOANS FROM A THIRD PARTY

During the year, the Company obtained loans from a third party totally RMB50,077,000. These loans bear annual interest rate of 8% and are guaranteed by Mr. Yu Yuerong, a director and the chief executive of the Company, and Mr. Tan Xiangdong, a director of the Company. The term of the loans is one year but the Company may at any time repay the loans together with payment of interest accrued up to the repayment date.

33 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2017 (2016: Nil).

34 CASH FLOW INFORMATION

Reconciliation of profit before income tax to cash generated from operations

	2017 RMB'000	2016 RMB'000
Profit before income tax	**26,732**	27,778
Adjustments for:		
Interest income *(Note 9)*	**(2,027)**	(1,209)
Interest expense *(Note 9)*	**5,018**	69
Depreciation of property, plant and equipment *(Note 15)*	**7,281**	6,210
Fair value gain on investment property *(Note 16)*	**(1,500)**	(1,028)
Share of results of a joint venture *(Note 13)*	**(2,054)**	–
Amortisation of land use rights and intangible assets *(Note 14 and 17)*	**340**	320
Impairment charge for bad debt *(Note 20)*	**32**	60
Deferred government grants income *(Note 28)*	**(135)**	(145)
Losses on disposals of property, plant and equipment	**–**	33
Changes in working capital:		
Increase in trade and other receivables	**(27,998)**	(13,058)
Increase in inventories	**(18,306)**	(2,686)
Increase/(decrease) in trade and other payables	**23,632**	(3,514)
Cash generated from operations	**11,015**	12,830

34 CASH FLOW INFORMATION *(Continued)*

Net debt reconciliation

Net debt	**2017** *RMB'000*	2016 *RMB'000*
Cash and cash equivalents	**54,268**	25,851
Liquid investments (i)	**–**	19,240
Borrowings – repayable within one year	**(44,602)**	(907)
Borrowings – repayable after one year	**–**	(1,284)
Loans from a third party	**(50,077)**	–
Notes payable	**(82,960)**	(62,724)
Bonds	**(46,650)**	–
Net debt	**(170,021)**	(19,824)
Cash and liquid investments	**54,268**	45,091
Gross debt – fixed interest rates	**(191,687)**	(64,915)
Gross debt – variable interest rates	**(32,602)**	–
Net debt	**(170,021)**	(19,824)

34 CASH FLOW INFORMATION *(Continued)*

Net debt reconciliation *(Continued)*

	Other assets		Liabilities from financing activities					
	Cash	Liquid investments[i]	Borrowings due within 1 year	Borrowings due after 1 year	Loans from a third party	Notes payables	Bonds	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at 31 December 2016	25,851	19,240	(907)	(1,284)	–	(62,724)	–	(19,824)
Cash flows	28,801	(19,240)	(44,465)	1,284	(49,076)	(20,236)	(44,386)	(147,318)
Foreign exchange adjustments	(384)	–	770	–	(1,001)	–	–	(615)
Other non-cash movements	–	–	–	–	–	–	(2,264)	(2,264)
Net debt as at 31 December 2017	54,268	–	(44,602)	–	(50,077)	(82,960)	(46,650)	(170,021)

(i) Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets held at fair value through profit or loss.

35 CONTINGENT LIABILITIES

As at 31 December 2017, the Group and the Company had no significant contingent liabilities (2016: Nil).

36 COMMITMENTS

(a) Capital commitments

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

	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment	**1,511**	1,281
Equity interest investment – Ever Clever Acquisition	**42,000**	–
Equity interest investment – others	**51,000**	–
Total	**94,511**	1,281

36 COMMITMENTS *(Continued)*

(b) Non-cancellable operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

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:

	2017	2016
	RMB'000	*RMB'000*
Not later than one year	**1,487**	1,723
Later than one year and not later than five years	**6,412**	2,107
	7,899	3,830

(c) Operating lease rentals receivable

The lease term is 5 years, and the lease agreement is renewable at the end of the lease period at market rate.

The Group had future aggregate minimum lease rentals receivable under non-cancellable operating leases as follows:

	2017	2016
	RMB'000	*RMB'000*
Not later than one year	**344**	–
Later than one year and not later than five years	**1,376**	–
	1,720	–

37 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*(a)*	**28,597**	28,597
Investment in a joint venture		**54,551**	–
Property, plant and equipment		**627**	1,050
		83,775	29,647
Current assets			
Trade and other receivables		**2,090**	367
Amounts due from subsidiaries		**189,935**	137,592
Cash and cash equivalents		**11,798**	3,665
		203,823	141,624
Total assets		**287,598**	171,271
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**3,801**	3,801
Share premium		**149,873**	149,873
Other reserves	*(b)*	**11,775**	39,160
Accumulated losses	*(c)*	**(17,417)**	(27,356)
Total equity		**148,032**	165,478
LIABILITIES			
Non-current liabilities			
Bonds		**46,650**	–
Current liabilities			
Trade and other payables		**10,237**	5,793
Bank borrowings		**32,602**	–
Loans from a third party		**50,077**	–
		92,916	5,793
Total liabilities		**139,566**	5,793
Total equity and liabilities		**287,598**	171,271

The balance sheet of the Company was approved by the Board of Directors on 28 March 2018 and was signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

37 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY *(Continued)*

(a) The following is a list of the principal subsidiaries at 31 December 2017:

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

All subsidiaries are limited liability companies.

(b) **Reserve movement of the Company**

	Share option reserves *RMB'000*	Exchange reserves *RMB'000*	Total *RMB'000*
At 1 January 2016	20,928	8,492	29,420
Currency translation differences	–	9,740	9,740
At 31 December 2016 and 1 January 2017	20,928	18,232	39,160
Transfer to accumulated losses on lapse of share options	(20,928)	–	(20,928)
Currency translation differences	–	(6,457)	(6,457)
At 31 December 2017	–	11,775	11,775

37 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY *(Continued)*

(c) Accumulated losses

	2017	2016
	RMB'000	*RMB'000*
Balance at 1 January	**(27,356)**	(23,056)
Losses for the year	**(10,989)**	(4,300)
Transfer from share option reserves on lapse of share options	**20,928**	-
Balance at 31 December	**(17,417)**	(27,356)

38 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	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Executive Directors										
Mr. Yu Yuerong										
– also the chief executive	–	–	836	644	15	16	–	–	851	660
Mr. Tan Xiangdong *(a)*	–	–	612	–	10	–	–	–	622	–
Mr. Chen Baoyuan	–	–	157	133	7	4	–	–	164	137
Ms. Pan Yili	–	–	100	103	5	4	–	–	105	107
Ms. Wang Jinfei *(b)*	–	–	21	322	1	16	–	–	22	338
Mr. Wang Xiaobing	–	–	220	234	14	20	–	–	234	254
	–	–	1,946	1,436	52	60	–	–	1,998	1,496
Non-executive Director										
Mr. Tian Tingshan *(c)*	90	–	–	–	–	–	–	–	90	–
Independent non-executive Directors										
Ms. Cho Mei Ting *(d)*	76	161	–	–	–	–	–	–	76	161
Mr. Chan Yin Tsung *(e)*	150	27	–	–	–	–	–	–	150	27
Mr. Ruan Lianfa	142	142	–	–	–	–	–	–	142	142
Mr. Wong Chi Wai *(f)*	–	134	–	–	–	–	–	–	–	134
Ms. Yau Kit Kuen Jean *(g)*	73	–	–	–	–	–	–	–	73	–
	441	464	–	–	–	–	–	–	441	464

(a) appointed on 22 May 2017
(b) resigned on 26 January 2017
(c) appointed on 20 July 2017
(d) resigned on 7 July 2017
(e) appointed on 1 November 2016
(f) resigned on 1 November 2016
(g) appointed on 7 July 2017

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.

38 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

Directors' and chief executive's emoluments *(Continued)*

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 (2016: 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.

39 SUBSEQUENT EVENTS

Subsequent to year end date, the Group has further paid RMB32,000,000 for the consideration for the Ever Clever Acquisition.

On 27 February 2018, 13 March 2018, and 20 March 2018, the Company issued 2-year bonds total amounting to HKD8,500,000 (equivalent to RMB6,859,660), with a coupon rate of 6.5% per annum. The issuance cost were HKD850,000 (equivalent to RMB685,966).

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				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**395,741**	274,232	266,010	253,795	251,382
Cost of sales	**(307,346)**	(196,990)	(200,275)	(189,094)	(188,860)
Gross profit	**88,395**	77,242	65,735	64,701	62,522
Other income and other (loss)/gains – net	**868**	4,408	5,209	3,885	7,775
Selling expenses	**(18,608)**	(21,612)	(18,543)	(16,109)	(11,423)
Administrative expenses	**(41,196)**	(35,817)	(46,391)	(27,568)	(29,648)
Finance (costs)/income – net	**(4,781)**	3,557	1,806	(747)	(230)
Share of results of a joint venture	**2,054**	–	–	–	–
PROFIT BEFORE INCOME TAX	**26,732**	27,778	7,816	24,162	29,456
Income tax expense	**(4,882)**	(4,496)	(4,249)	(3,654)	(5,449)
PROFIT FOR THE YEAR	**21,850**	23,282	3,567	20,508	24,007

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**640,670**	438,414	412,621	342,521	295,800
TOTAL LIABILITIES	**283,750**	102,761	100,510	139,680	113,397
	356,920	335,653	312,111	202,841	182,403

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2016 and 2017 and the consolidated assets and liabilities of the Group as at 31 December 2016 and 2017 are set out on pages 70 to 72 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.