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中國綠島科技有限公司

CHINA LUDAO TECHNOLOGY COMPANY LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

(Stock Code: 2023)

2018

INTERIM REPORT

A Better World For Everyone



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yu Yuerong (*Chairman*)
Mr. Tan Xiangdong (*Deputy Chairman*)
Mr. Chen Baoyuan
Ms. Pan Yili
Mr. Wang Xiaobing

NON-EXECUTIVE DIRECTOR

Mr. Tian Tingshan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean

AUDIT COMMITTEE

Mr. Chan Yin Tsung (*Chairman*)
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean

NOMINATION COMMITTEE

Ms. Yau Kit Kuen Jean (*Chairlady*)
Mr. Chan Yin Tsung
Mr. Ruan Lianfa
Mr. Yu Yuerong

REMUNERATION COMMITTEE

Mr. Chan Yin Tsung (*Chairman*)
Mr. Ruan Lianfa
Mr. Yu Yuerong
Ms. Yau Kit Kuen Jean

COMPANY SECRETARY

Mr. Ho Ka Wai

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

INDEPENDENT AUDITOR

BDO Limited
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited
China Everbright Bank Co. Ltd,
Hong Kong Branch

WEBSITE

www.ludao.cn.com

STOCK CODE

2023

BUSINESS AT A GLANCE

China Ludao Technology Company Limited (the “Company”) and its subsidiaries (collectively, the “Group”) is one of the leading manufacturers specializing in aerosol products in the People’s Republic of China (“PRC”). The Group is principally engaged in the research and development, manufacture and sale of aerosol and related products. The Company sells our products on contract manufacturing service (“CMS”) basis to overseas markets and on original brand manufacturing (“OBM”) basis in the PRC market. Meanwhile, the Group also expands the market in Mainland China on CMS basis gradually. The Group’s products can be divided into four major categories, namely (i) household and auto care products, (ii) air-fresheners, (iii) personal care products, and (iv) insecticides.

The Company’s OBM business which 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 general upward trend of the global economy continued since 2017. The Group’s CMS business continued to maintain a growth momentum as a result of benefiting from the improving global economy. Although the Chinese economy maintained an overall stable growth with positive trend, the Group’s OBM business development was slow during the transformation and upgrade of consumer goods by the Group. During the Reporting Period, the OBM business was still in a downward trend. To deal with the uncertainty and instability of the external environment as well as the rising world trade protectionism, the board of directors (the “Board” or “Director(s)”) and the management of the Company closely tracked the market situation, steadily improved its advantages of research & development and technology, enhanced its market development, adjusted its product mix, continued to leverage on the Group’s advantages of a scalable production capacity and cost control, actively developed the Group’s CMS business in the global market, and strived to reverse the downward trend of its OBM business.

On the other hand, the Group had also been engaging in clean energy business of collection and utilization of sewage source thermal energy (“Energy Business”) through acquisition since last year. In consideration of the market demands and national policies, the management of the Group believes that China’s clean energy business will have good prospects in the future. During the Reporting Period, Energy Business also began to contribute to some of the Group’s profits.

For the six months ended 30 June 2018, the turnover of the Group was approximately RMB206.8 million, representing an increase of approximately 12.8% as compared with that of in the corresponding period of 2017 (2017: RMB183.3 million). Accordingly, our Group recorded a net profit of approximately RMB12.6 million as compared with a net profit of approximately RMB12.2 million for the corresponding period in 2017. The earnings per share of the Group was RMB0.03 during the Reporting Period which remained at similar level as compared with the earnings per share of RMB0.03 for the corresponding period of last year.

Looking ahead, the background of deepening supply-side structural reform in the PRC and escalating international trade protectionism exist both opportunities and challenges. The Group will continue to focus on the aerosol industry and strive to boost its profitability through continuous innovation as well as optimising and adjusting its revenue structure. In addition, while continuing to reinforce its position in aerosol products, the Group will also devote efforts to expanding its product mix to provide its customers with products and services of different categories and levels and thus improve customers' stickiness. We will enhance our marketing capability to promote the development of our OBM business and the further development of our CMS business. Furthermore, through funding management, we will strengthen our risk control to realize stable corporate operation and sustainable development. On the other hand, the Group will assess the opportunity for developing new energy business in the future and utilize company resources to improve the competitiveness of its energy business when appropriate, so as to improve the Groups' profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

CMS

For the six months ended 30 June 2018, the turnover of the Group's CMS business was approximately RMB186.3 million (2017: RMB158.6 million), representing an increase of approximately 17.5% as compared with that of in the corresponding period of 2017.

In the first half of 2018, the general upward trend of the global economy continued since 2017, and the Group's CMS business recorded continuous growth trend. The Group will continue to establish its presence in South America, North America, Africa and Japan and increase the support to strategic customers. In addition, the Group continued to make additional investment in its auto care products and personal care products, and actively promoted the development of its CMS business in Mainland China. As such, the Group expects to continue to strengthen and improve its CMS business in the second half of 2018.

OBM

The turnover for OBM business of the Group for the six months ended 30 June 2018 was approximately RMB20.5 million (2017: RMB24.6 million), representing a decrease of approximately 16.7% as compared with that of in the corresponding period in 2017.

Although the Chinese economy maintained an overall stable growth with positive trend, the Group's OBM business development was slow during the transformation and upgrade of consumer goods by the Group. During the Reporting Period, the OBM business was still in a downward trend. The Group also began to adjust the brand portfolio, product mix, product pipeline and product promotion of OBM in order to adjust its product lines and promote its product image and brand name, striving to reverse the downward trend of its OBM business.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2018 was approximately RMB164.5 million (2017: RMB141.5 million), representing an increase of approximately 16.3% as compared with that of in the corresponding period of 2017. Such increase was in line with the overall increase in the Group's sales of approximately 12.8%.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2018, the Group recorded gross profit of approximately RMB42.3 million (2017: approximately RMB41.8 million) and the gross profit margin was approximately 20.5% (2017: 22.8%). The decrease in gross profit margin was mainly due to the changes in product mix and an increase in product cost.

Other Income and Other Gains – Net

Other income and other gains of the Group for the six months ended 30 June 2018 was approximately RMB3.9 million (2017: approximately RMB0.3 million), representing an increase of approximately RMB3.6 million as compared with that of in the corresponding period of 2017. Such increase was primarily due to the increase of technical service fee income during the Reporting Period.

Expenses

Selling Expenses

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the six months ended 30 June 2018, selling expenses was approximately RMB8.0 million (2017: approximately RMB8.4 million), representing a decrease of approximately 5.0% as compared with that of in the corresponding period of 2017. The decrease was primarily due to the decrease in other selling expenses.

Administrative Expenses

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2018, administrative expenses was approximately RMB20.5 million (2017: approximately RMB19.7 million), representing an increase of approximately 4.0% as compared with that of in the corresponding period of 2017. The increase in administrative expenses was primarily due to an increase in staff salaries and benefit expenses, increase in travelling and transportation expenses and increase in operating lease expenses.

Finance Costs/Income – net

For the six months ended 30 June 2018, the Group recorded net finance cost of approximately RMB5.2 million (2017: net finance income of approximately RMB1.1 million). The increase in finance costs was primarily due to the increase in interest expenses from bonds, note, bank borrowings, other loans and convertible bonds.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2018 was approximately RMB2.8 million, representing a slight decrease of approximately RMB0.1 million as compared with approximately RMB2.9 million for the corresponding period of 2017, which was mainly due to the decrease in expenses not deductible for tax purpose.

Profit for the period

The Group recorded profit for the period for the six months ended 30 June 2018 of approximately RMB12.6 million (2017: approximately RMB12.2 million), representing an increase of approximately RMB0.4 million as compared with that of in the corresponding period of 2017. Such increase was primarily due to the net impact of (i) increase in gross profit; and (ii) increase in other income and other gains.

Highlights of Balance Sheet

Prepayments & Deposits

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

	As at	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Prepayment to suppliers of raw materials	25,630	32,926
Deposits for price-locking agreements	28,000	28,000
Other prepayments & deposits	8,235	10,342
	61,865	71,268

Liquidity and Financial Resources

As at 30 June 2018, the total assets of the Group amounted to approximately RMB792.9 million (31 December 2017: approximately RMB640.7 million), and the net current assets of approximately RMB243.0 million (31 December 2017: approximately RMB167.6 million) and the Group's cash and bank deposits totalled approximately RMB187.5 million (31 December 2017: approximately RMB165.6 million). The current ratio of the Group increased from 1.7 as at 31 December 2017 to 2.2 as at 30 June 2018.

The equity attributable to shareholders of the Company as at 30 June 2018 amounted to approximately RMB389.7 million (31 December 2017: approximately RMB356.9 million). The gearing ratio (based on the total debt over the total equity) of the Group increased from 63% as at 31 December 2017 to 87% as at 30 June 2018.

Borrowings and the Pledge of the Group's Assets

As at 30 June 2018, note of RMB98.5 million (31 December 2017: nil) was secured by the 2,500 shares in Ever Clever Group Limited by the Group. Bank borrowings of RMB64.9 million (31 December 2017: RMB44.6 million) and notes payable of RMB81.9 million (31 December 2017: RMB83.0 million) were secured by our properties, plant and equipment, land use rights, investment property and pledge bank deposits with an aggregate carrying amount of RMB44.2 million (31 December 2017: RMB48.6 million). Bank borrowings were mainly used for working capital management and/or financing the Group's purchases.

Save as disclosed herein, there was no other charge on the Group's assets.

Financing

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

Contractual Obligations

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 30 June 2018, the Group's operating lease commitment amounted to approximately RMB9.0 million (31 December 2017: approximately RMB7.9 million).

As at 30 June 2018, the Group had capital commitments of approximately RMB48.5 million in respect of equity interest investment and approximately RMB0.4 million in respect of property, plant and equipment (31 December 2017: approximately RMB93.0 million and RMB1.5 million respectively).

The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of approximately RMB0.4 million within one year and approximately RMB1.3 million later than one year and no later than five years (31 December 2017: approximately RMB0.3 million and RMB1.4 million respectively).

Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities (31 December 2017: nil).

Exchange Rate Exposure

During the six months ended 30 June 2018, the Group mainly operated in the PRC with most transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in currencies other than RMB, the Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Employees and Emoluments Policy

As at 30 June 2018, the Group had employed a total of 473 employees in the PRC and Hong Kong (31 December 2017: 492). The Group offers comprehensive and competitive remuneration, retirement scheme, a share options scheme and benefit package to its employees. The emoluments of Directors have been determined with reference to the skills, knowledge, and involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group will review the remuneration policy and related packages on a regular basis.

Significant Investment Held

During the Reporting Period, the Group invested approximately RMB2.6 million, RMB42.2 million and RMB8.7 million in investment in joint ventures, investments in an associate and property, plant and equipment (2017: Nil, Nil, and RMB2.5 million respectively). Other than the above, the Group did not have any significant investments during the Reporting Period.

Material Acquisition

On 29 November 2017, Prosper One Development Limited, a wholly-owned subsidiary of the Company (the "Purchaser") entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Perfect Century Group Limited (the "Vendor"), pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase 25% equity interest of the target company, Ever Clever Group Limited ("Ever Clever", which together with its subsidiaries, the "Target Group") at the consideration of RMB160 million (equivalent to approximately HK\$188.8 million). The acquisition was completed on 8 January 2018.

Ever Clever is a limited liability company incorporated under laws of the British Virgin Islands ("BVI") and mainly engaged in investment holdings in the PRC. Its significant subsidiary, Huailai Hengji Heat Supply Limited Company ("HGRL"), is mainly engaged in heat supply business in the PRC and is accounted in the books of the Company as an associate.

As disclosed in the announcement of the Company dated 23 August 2018, due to the unavailability of the financial information of HGRL, the results of HGRL cannot be equity accounted for and shared by the Group. As such, no share of results is reflected in the interim results of the Group for the Reporting Period.

Further details of the acquisition are set out in the Company's announcements dated 29 November 2017, 5 December 2017, 28 February 2018, 9 March 2018, 29 March 2018 and 23 August 2018. Other than the above, the Group did not have any material acquisition during the Reporting Period.

Use of Net Proceeds from Initial Public Offering

During the six months ended 30 June 2018, the net proceeds from the Company's Initial Public Offer ("IPO") had been applied as follows:

	Actual net proceeds	Amount utilised up to 30 June 2018	Unutilised balance as at 30 June 2018
	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	–
	<hr/>	<hr/>	<hr/>
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.

Fund Raising Activity

- (i) 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.

- (ii) On 12 February 2018, the Company and Mr. Yu (the “Bond 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, places to subscribe the two-year 6.5% coupon unlisted bonds to be issued by the Company (the “2018 Bonds”). On 29 May 2018, the Company and the Bond Guarantor have given a formal notice to the Placing Agent to early terminate the said placing agreement with effect from 28 June 2018.

Up to the date of this report, the 2018 Bonds in an aggregate principal amount of HK\$18.5 million has been successfully subscribed by several independent individual investors.

Further details of the 2018 Bonds can be found in the Company’s announcement dated 12 February 2018.

- (iii) On 28 May 2018, the Company and Mr. Yu entered into a subscription agreement with Cheer Hope Holdings Limited (the “Investor”), pursuant to which the Company has conditionally agreed to issue and the Investor has conditionally agreed to subscribe for the note in principal sum of up to HK\$120 million (the “Note”).

On 31 May 2018, the Note in an aggregate principal amount of HK\$120 million has been successfully subscribed by the Investor.

Further details of the Note can be found in the Company’s announcement dated 28 May 2018.

Save as disclosed above, the Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2018 and the date of this report.

Future Plans for Material Investments or Capital Assets

To improve the product mix of Zhejiang Ludao Technology Co., Ltd., a subsidiary of the Group, the Company planned to increase its investment in the auto care and personal care products, and upgrade and improve the existing production lines. Meanwhile, 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.

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

Interim Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2018 (2017: nil).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Note	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	6	206,835	183,287
Cost of sales	7	(164,522)	(141,503)
Gross profit		42,313	41,784
Other income and other gains	6	3,858	314
Selling expenses	7	(8,004)	(8,422)
Administrative expenses	7	(20,483)	(19,705)
Operating profit		17,684	13,971
Finance income	9	1,500	1,207
Finance costs	9	(6,689)	(110)
Finance (costs)/income – net	9	(5,189)	1,097
Share of results of a joint venture		2,895	–
Profit before income tax		15,390	15,068
Income tax expense	10	(2,794)	(2,853)
Profit for the period		12,596	12,215
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		(588)	241
Total comprehensive income for the period attributable to the owners of the Company		12,008	12,456
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	11	0.03	0.03

The notes on pages 20 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
ASSETS			
Non-current assets			
Investments in joint ventures		60,101	54,551
Investment in an associate	12	160,432	–
Land use rights	13	5,124	5,186
Property, plant and equipment	14	100,773	96,237
Investment property		7,900	7,900
Intangible assets		299	361
Deferred income tax assets		352	352
Prepayment for investment		–	70,219
Prepayments for property, plant and equipment		3,741	2,409
		<u>338,722</u>	<u>237,215</u>
Current assets			
Inventories		49,577	56,029
Trade and other receivables	15	217,107	181,821
Cash and cash equivalents		75,515	54,268
Short-term bank deposits		92,793	88,139
Pledged bank deposits		19,155	23,198
		<u>454,147</u>	<u>403,455</u>
Total assets		<u>792,869</u>	<u>640,670</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	16	3,901	3,801
Share premium		150,043	134,143
Other reserves		64,281	60,080
Retained earnings		171,492	158,896
		<u>389,717</u>	<u>356,920</u>
Total equity		<u>389,717</u>	<u>356,920</u>

The notes on pages 20 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(Continued)

	Note	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Bonds	18	64,419	46,650
Note	19	98,485	–
Convertible bonds	20	27,817	–
Deferred government grants		875	875
Deferred income tax liabilities		377	377
		<u>191,973</u>	<u>47,902</u>
Current liabilities			
Trade and other payables	17	144,091	140,775
Current income tax liabilities		2,210	394
Bank borrowings		64,878	44,602
Loans from a third party		–	50,077
		<u>211,179</u>	<u>235,848</u>
Total liabilities		<u>403,152</u>	<u>283,750</u>
Total equity and liabilities		<u>792,869</u>	<u>640,670</u>
Net current assets		<u>242,968</u>	<u>167,607</u>
Total assets less current liabilities		<u>581,690</u>	<u>404,822</u>

The notes on pages 20 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	(Unaudited)				
	Share capital RMB'000 (Note 16)	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018	3,801	134,143	60,080	158,896	356,920
Comprehensive income					
Profit for the period	-	-	-	12,596	12,596
Currency translation differences	-	-	(588)	-	(588)
Total comprehensive income	-	-	(588)	12,596	12,008
Issuance of share	100	15,900	-	-	16,000
Equity component of convertible bonds	-	-	4,789	-	4,789
Balance at 30 June 2018	3,901	150,043	64,281	171,492	389,717

For the six months ended 30 June 2017

	(Unaudited)				
	Share capital RMB'000 (Note 16)	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017	3,801	134,143	78,303	119,406	335,653
Comprehensive income					
Profit for the period	-	-	-	12,215	12,215
Currency translation differences	-	-	241	-	241
Total comprehensive income	-	-	241	12,215	12,456
Lapse of share options	-	-	(20,928)	20,928	-
Balance at 30 June 2017	3,801	134,143	57,616	152,549	348,109

The notes on pages 20 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash used in operations	(3,960)	(3,033)
Interest paid	(1,225)	(110)
Income tax paid	(978)	(1,551)
	(6,163)	(4,694)
Cash flows from investing activities		
Investment of joint ventures	(2,550)	–
Payment for acquisition of an associate	(42,215)	–
Payment for property, plant and equipment	(8,705)	(2,477)
Prepayment for property, plant and equipment	(1,331)	736
Purchase of intangible assets	–	(93)
Decrease/(increase) in pledged bank deposits	4,043	(791)
Increase of short-term bank deposits	(4,654)	(11,000)
Proceeds from disposals of financial assets at fair-value through profit or loss	–	19,240
Interest received	1,500	1,207
	(53,912)	6,822
Cash flows from financing activities		
Proceeds from issue of bonds – net of issue cost	14,038	–
Proceeds from issue of note – net of issue cost	97,567	–
Proceeds from bank borrowings	26,466	11,756
Repayments of bank borrowings	(6,618)	(5,453)
Proceeds from notes payable	81,879	79,452
Repayment of notes payable	(82,960)	(64,224)
Repayments of loans from a third party	(50,077)	–
	80,295	21,531
Net increase in cash and cash equivalents	20,220	23,659
Cash and cash equivalents at beginning of the period	54,268	25,851
Currency translation differences	1,027	241
Cash and cash equivalents at the end of the period	75,515	49,751

The notes on pages 20 to 37 are an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Ludao Technology Company Limited (the “Company”) was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company’s registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1180, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter referred to as the “Group”) are principally engaged in the manufacturing and sale of aerosol products for household and auto care products, 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” or “Mr. Yu”), who has an effective 45.2% 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 (the “Stock Exchange”).

These unaudited interim condensed consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These unaudited interim condensed consolidated financial statements have been approved for issue by the Board of Directors on 31 August 2018.

2 BASIS OF PREPARATION

This unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted

The Group did not early adopt any new or revised standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2018. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

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

4 ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

5 SEGMENT INFORMATION

The executive directors ("EDs") are chief operating decision makers. EDs review the Group's internal reporting in order to assess performance and allocate resources. EDs have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and related products. The Group sells its products on CMS basis to overseas and PRC market and on OBM 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 considered that there is only one reportable operating segment.

Geographical information

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

Revenue from external customers

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
United States of America	72,743	77,999
Mainland China	58,575	46,223
Europe	9,647	8,184
Others	65,870	50,881
	<u>206,835</u>	<u>183,287</u>

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

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

5 SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

Non-current assets

Non-current assets consist of land use rights, property, plant and equipment, investment property and intangible assets which are all located in the PRC as at 30 June 2018 and 31 December 2017.

Information about major customers

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	50,198	55,237
Customer B	23,171	15,204
Customer C	26,095	22,306
Customer D	23,343	10,031
Customer E	–	11,863
	122,807	114,641

6 REVENUE, OTHER INCOME AND OTHER GAINS

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	206,835	183,287
Other income and other gains		
Government grants	172	48
Technical service fee	2,954	–
Others	732	266
	3,858	314

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

7 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation and amortisation	4,156	3,805
Employee benefit expenses, excluding amount including in research and development costs	17,117	16,671
Raw materials used	155,411	131,489
Changes in inventories of finished goods and work in progress	(2,372)	(1,123)
Water and electricity expenditures	1,594	1,680
Transportation and travelling expenses	6,055	5,322
Telecommunication expenses	233	260
Advertising costs	297	173
Other tax expenses	1,167	1,013
Research and development costs		
– Employee benefit expenses	1,969	2,363
– Materials and others, excluding depreciation and amortisation	1,517	2,173
Entertainment expenses	781	886
Operating lease expenses	1,922	1,064
Professional services fee	753	939
Other expenses	2,409	2,915
	<hr/>	<hr/>
Total	193,009	169,630
	<hr/>	<hr/>

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

8 DIRECTORS' EMOLUMENTS

The Directors' and chief executive's emoluments during the six months ended 30 June 2018 and 2017 are equivalent to key management compensation, and is as follows:

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Fee	315	230
Salaries	1,217	730
Pension scheme contributions	29	20
	<hr/>	<hr/>
Total compensation paid to key management personnel	1,561	980

9 FINANCE (COSTS)/INCOME – NET

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Interest income	1,500	1,207
Interest expenses		
– Bonds	(3,213)	–
– Note	(886)	–
– Bank borrowings	(1,041)	(110)
– Other loans	(943)	–
– Convertible bonds	(606)	–
	<hr/>	<hr/>
	(6,689)	(110)
	<hr/>	<hr/>
Finance (costs)/income – net	(5,189)	1,097

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

10 INCOME TAX EXPENSE

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

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

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

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the six months ended 30 June 2018.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Company Limited ("Ludao PRC"), an indirectly wholly-owned subsidiary of the Company, was qualified as a High and New Technology Enterprise, and accordingly, it is entitled to a preferential rate of 15% for the three years from 1 January 2016 to 31 December 2018.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	2,794	2,838
Deferred income tax	—	15
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	2,794	2,853
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for profit attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share (RMB'000)	<u>12,596</u>	<u>12,215</u>
Add: interest savings on convertible bonds (RMB'000)	<u>606</u>	<u>–</u>
Profit for the period attributable to owners of the Company for the purposes of diluted earnings per share (RMB'000)	<u>13,202</u>	<u>12,215</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands of shares)	<u>486,128</u>	<u>480,000</u>
Effect of dilutive potential ordinary shares: – Convertible bonds (thousands of shares)	<u>23,600</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands of shares)	<u>509,728</u>	<u>480,000</u>

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

12 INVESTMENT IN AN ASSOCIATE

	30 June 2018 RMB'000 (Unaudited)
As at 1 January	–
Addition	160,000
Cost related to acquisition	432
Share of results <i>(Note)</i>	–
	<hr style="border-top: 1px solid black;"/>
	160,432

Note:

On 8 January 2018, the Group acquired 25% equity interest in Ever Clever Group Limited (which together with its subsidiaries, the “Target Group”) for a consideration of RMB160,000,000. Due to the unavailability of the financial information of the Target Group, the results of the Target Group cannot be equity accounted for and shared by the Group. As such, no share of results is reflected in the interim results of the Group for the Reporting Period.

13 LAND USE RIGHT

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

	2018 RMB'000	2017 RMB'000
Net book amount as at 1 January (Audited)	5,186	5,310
Amortisation	(62)	(124)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Net book amount as at 30 June (Unaudited)/ 31 December (Audited)	5,124	5,186

As at 30 June 2018 and 31 December 2017, the Group’s land use rights were pledged to secure notes payable.

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

14 PROPERTY, PLANT AND EQUIPMENT

	2018 RMB'000	2017 RMB'000
Net book amount as at 1 January (Audited)	96,237	89,609
Addition	8,705	13,909
Depreciation provided during the period/year	<u>(4,169)</u>	<u>(7,281)</u>
Net book amount as at 30 June (Unaudited)/ 31 December (Audited)	<u>100,773</u>	<u>96,237</u>

As at 30 June 2018, the Group's buildings with the carrying amount of RMB12,055,000 (31 December 2017: RMB12,271,000) were pledged to secure notes payable.

15 TRADE AND OTHER RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables, net (a)	144,540	105,056
Prepayments and deposits	61,865	71,268
Other receivables	10,302	5,497
Notes receivable	<u>400</u>	<u>–</u>
	<u>217,107</u>	<u>181,821</u>

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2018 and 31 December 2017 respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Up to 3 months	97,615	69,860
3 to 6 months	25,052	29,070
6 to 12 months	19,273	5,040
Over 12 months	2,923	1,409
	144,863	105,379
Impairment provision	(323)	(323)
	144,540	105,056

The Group's sales are mainly made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 64% (31 December 2017: 62%) of the Group's revenue for the period. They accounted for approximately 63% (31 December 2017: 74%) of the gross trade receivable balances as at 30 June 2018.

16 SHARE CAPITAL

	30 June 2018 and 31 December 2017	
	Number of shares (thousands)	HK\$'000
Authorised Capital:		
Ordinary shares of HK\$0.01 each	2,000,000	20,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 31 December 2017	480,000	4,800
Allotted and issued on 29 March 2018 (Note)	11,800	118
At 30 June 2018	491,800	4,918

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

16 SHARE CAPITAL *(Continued)*

	Issued and fully paid: Share Capital The Group and Company Number of ordinary shares (of HK\$0.01 each)	RMB'000
At 1 January 2017, 30 June 2017, 31 December 2017	480,000,000	3,801
Allotted and issued on 29 March 2018 (Note)	11,800,000	100
At 30 June 2018	491,800,000	3,901

All shares issued rank pari passu against each other.

Note: 11,800,000 shares as consideration were allotted and issued to Perfect Century Group Limited (the "Vendor") according to the sale and purchase agreement entered between the Group and the Vendor on 29 November 2017 at the issue price of HK\$1.60 per share on 29 March 2018. Such issue price per share was approximately equal to the closing price at the date of acquisition on 8 January 2018 was HK\$1.61 per share quoted on the Stock Exchange.

17 TRADE AND OTHER PAYABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade payables (a)	38,202	36,405
Notes payable (b)	81,879	82,960
Advance receipts from customers	7,933	4,599
Other tax payables	5,003	6,455
Accrued expenses	5,615	5,157
Other payables	5,459	5,199
	144,091	140,775

The fair values of trade and other payables approximated to their carrying values as at 30 June 2018 and 31 December 2017 respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 TRADE AND OTHER PAYABLES (Continued)

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Up to 3 months	35,768	34,600
3 to 6 months	627	1,120
6 to 12 months	500	173
Over 12 months	1,307	512
	38,202	36,405

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

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

18 BONDS

	2018 RMB'000	2017 RMB'000
As at 1 January (Audited)	46,650	–
Additions	14,038	44,386
Accrued Interest	3,213	2,348
Currency translation difference	518	(84)
As at 30 June (Unaudited)/31 December (Audited)	64,419	46,650

During the six months ended 30 June 2018, the Company issued 2-year bonds at total par value of HKD18,500,000 (equivalent to RMB15,597,350) with coupon rate of 6.5% per annum (the "2018 Bonds"). The total net proceeds after issuance costs were RMB14,037,615 and the effective interest rate is 12.30% per annum.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 BONDS (Continued)

During the year ended 31 December 2017, 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 both 2018 Bonds and 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.

19 NOTE

	30 June 2018 RMB'000 (Unaudited)
Additions	97,567
Accrued Interest	886
Currency translation difference	32
	<hr/>
Carrying value	98,485

During the six months ended 30 June 2018, the Company issued 2-year note at total par value of HKD120,000,000 (equivalent to RMB101,172,000) with coupon rate of 9.0% per annum (the "Note"). The total net proceeds after issuance costs were RMB97,567,073 and the effective interest rate is 11.04% per annum.

The Company may at any time before the maturity dates redeem the Note at 100% of the total principal amounts together with payment of interests and outstanding administrative fee and all outstanding amounts payables by the Company to noteholder up to the date of such early redemption.

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

20 CONVERTIBLE BONDS

On 29 March 2018, the Company issued RMB32 million zero coupon convertible bonds (equivalents to HK\$37.76 million) to the Vendor as part of the consideration for the acquisition of 25% equity interest of the issued share capital of Ever Clever Group Limited in respect of the sale and purchase agreement entered between the Group and the Vendor on 29 November 2017, with a maturity date of 28 March 2021.

The principal terms of the convertible bonds (“CB”) are as follows:

Subject to fulfillment of the profit guarantee given by the Vendor in favour of the Company pursuant to the terms of the Sales and Purchase Agreement, the bondholders of the CB (the “Bondholders”) have the right to convert their CB into fully paid ordinary shares of the Company with a par value of HK\$0.01 each at conversion price (“Conversion Price”) of HK\$1.60 per share (the “New Shares”) at any time during the conversion period, provided that the Bondholders may only convert such number of CB as (i) would not trigger any general offer obligations under the Takeovers Code; or (ii) would not cause the Company not to comply with the minimum public float requirement under the Listing Rules following the conversion.

The number of New Shares to be issued on conversion of a CB will be determined by dividing the principal amount of a CB to be converted by the Conversion Price in effect on the conversion date in respect of a CB. The New Shares shall at all times rank *pari passu* among themselves and all New Shares shall include rights to participate in all dividends and other distributions the record date of which falls on or after the conversion date.

The Company is entitled to redeem outstanding CB in cash in accordance with the terms in relation to the profit guarantee in the Sale and Purchase Agreement.

Details of the CB have been published on the Company’s announcement dated 29 November 2017, 5 December 2017 and 29 March 2018.

The CB contain two components, the liability and the equity components. The equity component is presented in equity as “other reserves”. The effective interest rate of the liability component is approximately 8%.

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

20 CONVERTIBLE BONDS *(Continued)*

The movement of the liability component of the CB for the period is set out below:

	30 June 2018 RMB'000 (Unaudited)
Issuance of the CB on 29 March 2018	32,000
Equity component	(4,789)
	<hr/>
Liability component on 29 March 2018	27,211
Interest charge	606
	<hr/>
Carrying amount	27,817
	<hr/>

21 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2018 (2017: nil).

22 CONTINGENT LIABILITIES

As at 30 June 2018, the Group and the Company had no significant contingent liabilities (31 December 2017: nil).

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

23 COMMITMENTS

(a) Capital commitments

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Property, plant and equipment	429	1,511
Equity interest investment		
– Acquisition of Ever Clever Group Limited	–	42,000
Equity interest investment – others	<u>48,450</u>	<u>51,000</u>
	<u>48,879</u>	<u>94,511</u>

(b) Non-cancellable operating lease

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:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Not later than one year	3,389	1,487
Later than one year and not later than five years	<u>5,641</u>	<u>6,412</u>
	<u>9,030</u>	<u>7,899</u>

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

23 COMMITMENTS *(Continued)*

(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:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Not later than one year	351	344
Later than one year and not later than five years	1,288	1,376
	1,639	1,720

24. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the Reporting Period and up to the date of this report, the Vendor remained unable to provide to the Group the audited financial statements of HGRL for the First Guarantee Period. Further details are set out in the Company's announcement dated 23 August 2018, note 12 to the interim condensed consolidated financial statements of this report and the paragraph headed "Management Discussion and Analysis – Material Acquisition" of this report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

No transactions, arrangements and contracts 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, arrangements or contracts of significance for the provision of services to the Group by the controlling shareholder of the Company.

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

As at 30 June 2018, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 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 Issuers ("Model Code") as set out in Appendix 10 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Long positions in shares and underlying shares of the Company:

Name of Director	Number of Ordinary Shares			Approximate percentage of interests in the Company (Note 1)
	Personal Interests	Interest of a controlled corporation	Total	
Mr. Yu	–	222,276,000 (Note 2)	222,276,000	45.20%
Mr. Chen Baoyuan	600,000	–	600,000	0.12%
Mr. Wang Xiaobing	1,200,000	–	1,200,000	0.24%

Notes:

- (1) These percentages have been compiled based on the total number of issued shares (i.e. 491,800,000 shares) as at 30 June 2018.
- (2) These shares are held by Ludao Investments, which is wholly and beneficially owned by Mr. Yu.

SHARE OPTION SCHEME

Pursuant to the share option scheme (“Share Option Scheme”) adopted by the Company on 16 September 2013, the Directors may invite participants to take up options at a price determined by the Board provided that it shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the offer date of the relevant option, which must be a day on which the Stock Exchange is open for the business of dealing in securities (a “Trading Day”); (ii) an amount equivalent to the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the 5 Trading Days immediately preceding the offer date of the relevant option; and (iii) the nominal value of a Share on the offer date.

The 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 Participant(s)” 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 of Directors 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.

As at 30 June 2018 to the date of this report, the Company does not have any share options outstanding for issue under the Share Option Scheme.

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

As at 30 June 2018, 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 Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or the Associated Corporations", 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 of the Company (Note 2)
Ludao Investments (Note 3)	Beneficial Owner	222,276,000	45.20%
Ms. Wang Jinfei (Note 3)	Interest of spouse	222,276,000	45.20%
Perfect Century Group Limited (Note 4)	Beneficial Owner	35,400,000	7.20%

Notes:

- (1) All the interests represent long positions.
- (2) These percentages have been compiled based on the total number of issued shares (i.e. 491,800,000 shares) as at 30 June 2018.
- (3) Ludao Investments is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Yu, the chairman and an 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.
- (4) Perfect Century Group Limited is interested in 35,400,000 shares which include 11,800,000 shares and 23,600,000 underlying shares to be derived from the convertible bonds of a principal amount of RMB32 million (equivalent to HK\$37.76 million) issued by the Company on 29 March 2018 at the conversion price of HK\$1.60 per share.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2018.

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 report.

Each of Mr. Yu and Ludao Investments (hereinafter referred to as 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 hold (other than through the Group or in respect of each covenantor (together with his/its associates), 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.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference which has been adopted for the purpose of making recommendations to the Board on the appointment, re-appointment and removal of the external independent auditor, and question any of its resignation or dismissal. It is also responsible for reviewing and providing supervision on the financial reporting process, risk management and internal controls procedures of the Group. 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.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed internal controls and risk management review and process and financial reporting matters. The Audit committee has also reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018.

REMUNERATION COMMITTEE

The Remuneration Committee was set up to consider and approve the remuneration packages of the Directors and senior management of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The Remuneration Committee currently comprises of four members, being three are independent non-executive Directors, namely, Mr. Chan Yin Tsung, (being the chairman of the Remuneration Committee), Mr. Ruan Lianfa, Ms. Yau Kit Kuen Jean and one executive Director, Mr. Yu.

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE FUNCTIONS

The Board delegated the corporate governance functions to a professional firm as an independent compliance adviser. 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.

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, in the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules except CG Code provision A.2.1.

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Yu, the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Yu 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.

SUFFICIENCY OF PUBLIC FLOAT

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct of the Group regarding Directors' securities transactions for the six months ended 30 June 2018. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the required standard set out in the Model Code during the Reporting Period.

By order of the Board
China Ludao Technology Company Limited
Yu Yuerong
Chairman & Executive Director

Hong Kong
31 August 2018