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 A BETTER WORLD FOR EVERYONE

ANNUAL REPORT

Contents

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 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
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.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 2018 (the "Reporting Period").

During the Reporting Period, apart from continuing to consolidate CMS business and maintain the growth of CMS business, the Group successfully reversed the downward trend of its OBM business and recorded business growth by means of a multiple of pertinent strategies such as promoting brand image, adjusting product structure and reinforcing marketing teams. Despite the improvement in its primary business and stable economic development in China, the Group's strategic decision making is affected by Sino-U.S. trade war and considerable variables in global economic development. Therefore, in response to the adverse external impacts, the Board of Directors and the management of the Group, from time to time, optimized strategies, paid more efforts in production innovation, continued to consolidate and expand overseas market and strengthened cost control in a bid to elevate the Group's competitiveness.

In addition, the Group holds an optimistic view on promising prospect of the investment in clear energy and heating supply newly introduced in 2017. While strengthening the monitoring over the investment in the projects, the Board and management of the Group will keep a close eye on other potential opportunities to improve the competitiveness.

Last but not least, on behalf of the Board, I would like to extend my heartfelt thanks to the management team, employees, customers, suppliers and business partners of the Group for their dedicated contribution and support 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 2019

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, although the global economy continued the mild growth since 2017, the global economic development was faced with great uncertainties and extraordinary reform caused by the trade war. Despite continuously steady and optimistic development, China's economy is undergoing a transition from the high-speed growth stage to the high-quality development stage, with historic changes occurring to the industrial, demand and factor structure. The Sino-US trade war has been affecting the Group's strategic decisions, so the Group is facing a great challenge from the external environment for the development. Nevertheless, following the development concept of "Innovation, Green and Harmony", the Group has adopted various strategies to cope with and reduce the uncertainties arising from the trade war between China and the United States and changes in the external environment. At the same time, by means of continued adjustment of its sales strategy and strengthened customer management, the Group managed to maintain the growth momentum in CMS business in the past four years. The Group reversed the decline trend of OBM business, recording an increase of about 6.4%. The Group will actively participate in various domestic and global exhibitions to strengthen the promotion of the Group's image, cement the cooperation with strategic customers, and actively expand new markets in a bid to continue to consolidate the global market as well as the Group's OBM business.

On the other hand, during the Reporting Period, the Group engaged in energy business of collection and utilization of sewage source thermal energy in July 2017 through project acquisition. This continued to contribute stable returns to the Group. 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 enhance the monitoring of investment projects and consider investing appropriate 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 RMB405.0 million and RMB23.2 million respectively, representing an increase of approximately 2.4% and an increase of 6.4% respectively over 2017. Basic earnings per share was approximately RMB5 cents (2017: RMB5 cents).

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB367.0 million (2017: RMB360.0 million) representing an increase of approximately 1.9% as compared with last year.

During the Reporting Period, although the world economy continued its moderate growth since 2017 and the global economic development was subject to enormous uncertainties and unusual changes caused by the trade war; at the same time, the Sino-US trade war has always affected the strategic decisions of the Group from beginning to end, and hence the Group's development was currently facing great challenges from the external environment. Nevertheless, the Group adopted a variety of strategies based on the development concept of "innovation, green and harmony" to cope with and reduce the uncertainties brought about by the Sino-US trade war and changes in the external environment. Moreover, the Group's CMS business has maintained its growth momentum for four years in a row by continuously adjusting the sales strategy and customer management. In the coming year, by actively participating in various types of exhibitions at home and around the world, the Group will strengthen the promotion of its own image, enhance the cooperative relationship with strategic customers and actively expand new markets, with a view to continuing to consolidate and strengthen its position in the global market.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB38.0 million (2017: RMB35.7 million), representing a increase of approximately 6.4% as compared with last year.

Despite maintaining a stable and good development trend, the Chinese economy is transforming towards the quality-based development period from the high-speed development period, and its industrial structure, demand structure and factor structure are undergoing historic changes. The Group actively adopted various strategies and successfully reversed the decline trend of OBM business, recording an increase of about 6.4% in revenue. In the coming 2019, the Group will strengthen the construction of marketing team, upgrade and update products, enhance the brand image and adjust the product structure, with a view to strengthening the Group's OBM business.

Management Discussion and Analysis

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB309.9 million (2017: RMB307.3 million), representing an increase of approximately 0.8% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB95.1 million (2017: RMB88.4 million), representing an increase of approximately 7.6% as compared to that of the prior year. The gross profit margin was approximately 23.5% (2017: 22.3%), the relevant increase of approximately 1.2% was primarily due to the changes of products structure as compared to that of the prior year.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB23.2 million (2017: RMB21.9 million), representing an increase of approximately 5.9% when compared to the prior year. The net profit margin of the Group increased from 5.5% in 2017 to 5.7% in 2018. Such increase was primarily due to the increase of gross profit, other income and other gains.

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 RMB22.7 million (2017: RMB18.6 million), representing an increase of approximately 22.2% as compared to that of the prior year. The increase was primarily due to the increase in transportation and travelling expenses of the Group 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 RMB46.4 million (2017: RMB41.2 million), representing an increase of approximately 12.6% as compared to that of the prior year. The increase was primarily due to the increase in depreciation and amortisation, professional services fee and operating lease expenses.

Management Discussion and Analysis

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB16.6 million (2017: net finance cost RMB4.8 million), representing an increase of approximately RMB11.8 million as compared to that of the prior year. The increase was primarily due to decrease in foreign exchange loss and increase of interest expense from bonds, bank borrowings, note instruments and convertible bonds.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB5.4 million, representing an increase of approximately RMB0.5 million as compared with RMB4.9 million in 2017. Effective income tax rate for the current period was approximately 19.0%, which was higher as compared with approximately 18.3% over 2017. The higher effective income tax rate was primarily due to the increase in expenses not deductible for tax purpose.

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Trade Receivables

As at 31 December 2018, trade receivables of approximately RMB16.1 million were past due, representing an increase of approximately 162.1% as compared to the amount of RMB6.1 million as at 31 December 2017. The amount of the provision was RMB103,000 as at 31 December 2018 (2017: RMB323,000). 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 2018 (2017: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the total assets of the Group amounted to approximately RMB796.2 million (2017: RMB640.7 million), and net current assets of approximately RMB204.4 million (2017: RMB167.6 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 89%, which was higher as compared with approximately 63% over 2017. The significant increase was primarily due to the issuance of bonds, note instruments and convertible bonds and the increase of bank borrowings for financing the business acquisition during the year.

Management Discussion and Analysis

BORROWINGS

As at 31 December 2018, bank borrowings of the Group amounted to approximately RMB59.9 million (2017: RMB44.6 million) with full maturity until 2019.

CAPITAL STRUCTURE

During the Reporting Period, pursuant to the sale and purchase agreement entered into between the Company and Perfect Century Group Limited ("the Vendor"), 11,800,000 ordinary shares of the Company were allotted and issued to the Vendor at the issue price of HKD1.60 per share on 29 March 2018 as part of the consideration for the acquisition of 25% equity interest of Ever Clever Group Limited.

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2018, the Group's operating lease commitment amounted to approximately RMB9.3 million (2017: RMB7.9 million). As at 31 December 2018, the Group had capital commitments of approximately RMB48.5 million in respect of equity interest investments and approximately RMB0.9 million in respect of property, plant and equipment (2017: 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 RMB0.3 million within one year and approximately RMB1.2 million later than one year and no later than five years.

CONTINGENT LIABILITIES

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

EXCHANGE RATE EXPOSURE

During the Reporting Period, the Group mainly operated in the PRC with most transactions were 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 2018, the Group had employed a total of 465 employees (2017: 490). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of Directors have been determined with reference to the skills, knowledge, involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the year. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonuses and the Group's contribution to mandatory provident funds (or state-managed retirement benefits scheme). Other benefits include share options granted or to be granted under the Share Option Schemes and training schemes. The Group will review the remuneration policy and related packages on a regular basis.

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group invested approximately RMB2.6 million, RMB14.8 million, Nil, and RMB42.3 million in investment in a joint venture, property, plant and equipment, prepayments for investment and financial assets at fair value through other comprehensive income respectively (2017: RMB52.0 million, RMB13.9 million, RMB70.0 million, and Nil respectively). Other than the above, the Group did not have any significant investments. For the details of investments in a joint venture and financial assets at fair value through other comprehensive income, please refer to the section headed "Material Acquisition" and "Other Information" of this report.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the year ended 31 December 2018, the net proceeds from the initial public offering had been applied as follows:

	Actual net proceeds	**Amount utilised up to 31 December 2018**	**Balance unutilised balance as at 31 December 2018**
	HKD million	*HKD million*	*HKD 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	5	2
To fund the working capital requirement	6	6	–
Total	59	57	2

Management Discussion and Analysis

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 (the "Prospectus").

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") 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 HKD188.8 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.

As disclosed in the announcement of the Company dated 29 November 2017, Ever Clever will become an associate of the Company. However, during the audit planning process and having discussed with the auditors of the Company, the Directors have reassessed such investment of the Target Group and considered that the classification of such investment in the Target Group should be recognised as the financial assets at fair value through other comprehensive income instead of the investment in an associate as disclosed previously. Details are set out in note 21 to the consolidated financial statements of this report.

Other than the above, the Group did not have any material acquisition during the Reporting Period.

OTHER INFORMATION

(i) Profit Guarantee in respect of the acquisition of 50% sale shares and sale loan in Illustrious Success Limited

On 4 July 2017, the Company has entered into a sale and purchase agreement with Wealth Linkage Development Limited ("Wealth Linkage") and the guarantors, namely Lou Hongbo (樓洪波), Liu Yan (劉燕), Yao Yanyan (姚艷艷) and Wang Xuanyi (王宣懿) (collectively, the "Guarantors"), pursuant to which Wealth Linkage 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 ("Illustrious Success" together with its subsidiaries the "Illustrious Success Group") at the consideration of RMB52,000,000 (equivalent to approximately HKD59,898,860). The acquisition was completed on 7 July 2017. Further details of the acquisition are set out in the Company's announcements dated 4 July 2017 and 5 July 2017.

The audited net profit after tax on a consolidated basis for the year ended 31 December 2018 of the Illustrious Success Group was approximately RMB10,634,000 according to the its consolidated financial statements. The Directors are of the opinion that Wealth Linkage was unable to meet the requirement of profit guarantee pursuant to the agreement and the relevant shortfall of the profit guarantee (as defined in the announcement of the Company dated 4 July 2017) was approximately RMB1,366,000. Details of profit guarantee are set out in note 6 to the consolidated financial statements of this report.

Pursuant to the agreement, the Guarantors have jointly and severally agreed to guarantee the due performance and observance of the terms and obligations by Wealth Linkage in such manner and on such terms and conditions as provided in the agreement. Accordingly, the Guarantors would be jointly and severally liable for paying the compensation to the Company in accordance with the formula provided in the agreement.

The Directors are currently in discussion and negotiation with Wealth Linkage and the Guarantors about the settlement arrangement of the compensation. The Directors will seek legal advice from the Group's legal advisors for recovery of the compensation when necessary.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of the material developments in the above matters.

(ii) Update on Profit Guarantee in respect of the acquisition of 25% equity interest of Ever Clever

Reference is made to the announcements of the Company dated 29 November 2017 and 5 December 2017 in relation to, amongst other things, the acquisition of 25% equity interest of Ever Clever. Further reference is also made to the announcements of the Company dated 23 August 2018 and 4 September 2018 in relation to the update on the profit guarantee of such acquisition.

Up to the date of this report, the Vendor is still unable to provide the relevant audited financial statements of HGRL. The Company is taking every step to address this issue. The Company has instructed the legal representative to issue demand letters to Vendor and the relevant guarantors requesting the provision of the relevant audited financial statements of HGRL. It will maintain an open communication channel with Vendor and will be continuing with the communication on obtaining the relevant financial statements of HGRL.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of any material developments in the above matters.

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 2018.

(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 HKD100 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.

During the referral period, the 2017 Bonds in an aggregate principal amount of HKD59 million has been successfully subscribed by several independent individual investors.

Further details of the 2017 Bonds are set out in the Company's announcement dated 20 July 2017.

(ii) On 12 February 2018, the Company and Mr. Yu Yuerong ("Mr. Yu") (the "Bond Guarantor") 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 (the "2018 Bonds"). On 29 May 2018, the Company and the Bond Guarantor gave a formal notice to the Placing Agent to early terminate the said placing agreement with effect from 28 June 2018.

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

During the referral period, the 2018 Bonds in an aggregate principal amount of HKD18.5 million has been successfully subscribed by several independent individual investors.

(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 HKD120 million (the "Note").

On 31 May 2018, the Note in an aggregate principal amount of HKD120 million has been successfully subscribed by the Investor.

Further details of the Note are set out 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 31 December 2018 and the date of this report.

Management Discussion and Analysis

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, through internal resources, projects for the research and development, manufacture and sale of medical and edible aerosol products through its joint venture entity in the PRC. In addition, the Group will also pay attention to other investment opportunities in the market.

PROSPECTS

Although the world economy is still shrouded in the shadow of the Sino-US trade war, there are still huge uncertainties and changes in global economic development. Therefore, opportunities and challenges coexist. Based on the development concept of "innovation, green and harmony", the Group pays close attention to the development and changes of the industry and adjusts its strategies in a timely manner to cope with and reduce the uncertainties brought about by the Sino-US trade war and changes in the external environment. At the same time, by continuously adjusting the sales strategy and customer management and actively participating in various types of exhibitions at home and around the world, the Group will strengthen the promotion of its own image, enhance the cooperative relationship with strategic customers and actively expand new markets, with a view to continually consolidate and strengthen the Group's business development.

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.

In addition, the Group will continue to review its energy business, allocate resources appropriately and strengthen the monitoring on investment projects as well as commit to improve the competitiveness of its energy business. At the same time, the Group will also pay attention to other opportunities in the market 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 2018.

The Company wishes to highlight the importance of the 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.

Corporate Governance Report

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 29 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 2018, 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.

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. Chen Baoyuan, Mr. Chan Yin Tsung and Mr. Ruan Lianfa shall retire from office and, being eligible, offer themselves for re-election at the forthcoming 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.

Directors Nomination Procedures

Pursuant to the Directors Nomination Procedures, the Company considers a number of criteria in evaluating and selecting candidates for directorships, including but not limited to (i) character and integrity; (ii) qualifications including professional qualifications; (iii) willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments; (iv) requirement for the Board to have independent non-executive Directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules; (v) board diversity policy of the Company and any measurable objectives adopted by the Board for achieving diversity on the Board knowledge and experience that are relevant to the Company's business and corporate strategy; and (vi) other perspectives appropriate to the Company's business.

The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of Director at the general meeting.

The Nomination Committee will review the Directors Nomination Procedures annually to ensure its continued effectiveness.

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, 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 2018 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 2018. 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 2018, 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 Report

CORPORATE GOVERNANCE FUNCTIONS

The Board delegated the corporate governance functions to 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.

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 eight 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 Committee's 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 2018 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 Committee's 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 two meetings held to review and make recommendation on the remuneration packages of individual executive Directors and senior management and Director's fee of independent non-executive Directors.

The remuneration of the Directors for the years ended 31 December 2018 and 2017 are set out in note 40 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 2018 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 Committee's 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 two 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.

Corporate Governance Report

DIRECTORS' ATTENDANCE

Set out below are details of the attendance record of each Director at the Board, committee and general meeting 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)*	8/8	N/A	2/2	2/2	1/1
Mr. Tan Xiangdong	8/8	N/A	N/A	N/A	1/1
Mr. Chen Baoyuan	8/8	N/A	N/A	N/A	1/1
Ms. Pan Yili	8/8	N/A	N/A	N/A	1/1
Mr. Wang Xiaobing	8/8	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Tian Tingshan	8/8	N/A	N/A	N/A	0/1
Independent Non-Executive Directors					
Mr. Chan Yin Tsung *(Note 2)*	8/8	2/2	2/2	2/2	1/1
Mr. Ruan Lianfa	8/8	2/2	2/2	2/2	1/1
Ms. Yau Kit Kuen Jean *(Note 3)*	8/8	2/2	2/2	2/2	1/1

Notes:

1. Chairman of the Company
2. Chairman of the Audit Committee and the Remuneration Committee
3. Chairlady of the Nomination Committee

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. The position of the Company Secretary is held by Mr. Ho Ka Wai ("Mr. Ho"). 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, 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 2018.

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

PricewaterhouseCoopers resigned as the external independent auditor of the Company with effect from 1 August 2018 while BDO Limited was appointed on the same date to fill the casual vacancy arising from the resignation of PricewaterhouseCoopers to hold office until the conclusion of the forthcoming AGM. 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 2018, the fee payable to BDO Limited 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 RMB1.0 million and nil respectively.

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 2018.

The Group currently has no internal audit function and the Board reviewed that it is more cost effective to engage an external independent adviser instead of recruiting a team of internal audit staff to perform such annual review function.

The Company engaged a professional firm as an independent advisor to conduct internal control review of the Group for the year ended 31 December 2018. 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.

Corporate Governance Report

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 51, 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 22 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 64, 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 24 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).

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS *(Continued)*

Mr. Chen Baoyuan（陳寶元）, aged 46, 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 23 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). 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. Mr. Chen obtained a master degree in business administration from the Zhejiang Gongshang University in June 2018.

Ms. Pan Yili（潘伊莉）, aged 43, was appointed as an executive Director of the Company on 16 September 2013. Ms. Pan has over 12 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), Xiong'an New District Distinguished Expert in geothermal exploration, the Visiting Professor of China University of Geosciences (Beijing) and Beijing Normal University, etc.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung (陳彥璁), aged 39, 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 15 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 65, 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 50, 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 19 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 36, 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 12 years of experience in accounting and auditing.

Mr. Wang Yongfei (王永飛), aged 43, 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 22 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"); (ii) clean energy business of collection and utilisation of sewage source thermal energy ("clean energy business") in the PRC; and (iii) investment holding business in Hong Kong. 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 2018 to 31 December 2018.

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 AND MATERIALITY ASSESSMENT

The Group understands the success of the Group's business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group's activities, products, services and relationships. It allows the Group to understand risks and opportunities. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group's roles and duties, strategic plan and business initiatives. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

Environmental, Social and Governance Report

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities. The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

Stakeholders	Expectations	Engagement channels	Measures
Government	– Comply with applicable 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 – Annual and interim reports – Website	– Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation for example, accepted certain 1-2 on-site inspections throughout the year), and actively undertook social responsibilities
Shareholders and Investors	– Low risk – Return on investment – Information disclosure and transparency – Protection of interests and fair treatment of shareholders	– Annual general meeting and other shareholder meetings – Annual and interim report, announcements	– Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/circulars/annual and interim reports. – Carried out different forms of investor activities with an aim to improve investors' recognition. Held results briefing upon necessary. – Disclosed company contact details on website and in published reports and ensured all communication channels are available and effective

Stakeholders	Expectations	Engagement channels	Measures
Employees	– Safeguard the rights and interests of employees – Working environment – Career development opportunities – Self-actualization – Health and safety	– Trainings, seminars, briefing sessions – Cultural and sport activities – Newsletters – Intranet and emails	– Provided a healthy and safe working environment; developed a fair mechanism for promotion; established labor unions at all levels to provide communication platforms for employees; cared for employees by helping those in need and organized employee activities
Customers	– Safe and high-quality products – Stable relationship – Integrity – Business ethics	– Company website, brochures and annual reports – Email – Customer service hotline	– Established committee to maintain good communication – Held regular online customer satisfaction survey to understand our customer's satisfaction levels with our products and services
Suppliers/Partners	– Long-term partnership – Honest cooperation – Fair, open information resources sharing – Risk reduction	– Business meetings, supplier conferences, phone calls, interviews – Regular meeting – Review and assessment – Tendering process	– Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors
Financial institution	– Compliance with applicable laws and regulations – Information disclosure	– Consulting – Information disclosure – Reports	– Provided annual and interim reports
Public and Communities	– Social responsibility – Open information	– Community engagement – Information disclosure	– Engaged in charity and volunteering – Disclosed information timely

Environmental, Social and Governance Report

Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 27 of the Listing Rules) and the GRI Guidelines.

The Group has evaluated the materiality and importance in ESG aspects through the following steps:

Step 1: Identification – Industry Benchmarking

- Relevant ESG areas were identified through the review of relevant ESG reports of the local and international industry peers.

- The materiality of each ESG areas was determined based on the important of each ESG area to the Group through internal discussion of the management and the recommendation of ESG Reporting Guide (Appendix 27 of the Listing Rules).

Step 2: Prioritization – Stakeholder Engagement

- The Group discussed with key stakeholders on key ESG area identified above to ensure all the key aspects to be covered.

Step 3: Validation – Determining Material Issues

- Based on the discussion with key stakeholders and internal discussion among the management, the Group's management ensured all the key and material ESG areas, which is important to the business development, were reported and in compliance with ESG Reporting Guide.

As a result of this process carried out in 2018, those important ESG areas to the Group were discussed in this Report.

Environmental, Social and Governance Report

A. ENVIRONMENTAL ASPECTS

As one of the world's leading manufacturers specializing in aerosol products, the Group recognizes that it has an obligation to reduce the impact of our operations on the environment and be accountable for the resources and materials that are used in our daily operations. The Group promotes environmental stewardship throughout our business ecosystem by introducing a number of measures to enhance the environmental protection awareness among its employees, encouraging them to develop environment-friendly working habits and to take action in protecting the precious environment. The Group also pledges to uphold quality environmental management. The Group has continuously improved its environmental management systems, which is certified conforming to the higher level of international standards from ISO 14001:2004 to ISO 14001:2015. Based on ISO 14001:2015, the Group has implemented a set of internal policies and procedures for conserving resources, managing the wastes and minimising the pollution.

Throughout the year, the Group fully complied with all of the relevant environmental laws and regulations in the countries and regions, such as the Environmental Protection Law of the People's Republic of China in the PRC and the Air Pollution Control Ordinance (Cap. 311) in Hong Kong. Besides, no concluded cases regarding environmental issues were brought against the Group. As our Group continues to develop, we are committed to continuously improve the environmental sustainability of our business, ensuring that environmental considerations remain one of the top priorities in our daily business operations and that we fulfil our obligations to both the environment and community.

A1. EMISSIONS

As a manufacturer, the Group recognizes that it has ethical duties to reduce emissions. Given that most of our operations is manufacturing based, 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. In the meantime, the Group fully complies with all of the relevant environmental laws and regulations in the countries and regions where we operate such as the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (2015) in the PRC, the Motor Vehicle Idling (Fixed Penalty) Ordinance (Cap. 611) and the Road Traffic Ordinance (Cap. 374) in Hong Kong. Besides, no concluded cases regarding emissions brought against the issuer or its employees during the year.

Environmental, Social and Governance Report

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 strives to improve the air quality. During the year, the Group implemented "Treatment Information to VOCs 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 Group also 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's air pollutant emissions are classified into two sources – stationary and mobile. During the reporting period, stationary source was our major source of air pollutant emission for manufacture of aerosol and related products. The slight increase in air pollutant emission in 2018 was mainly attributable to an increase in manufacture and sale of aerosol products for the household and auto care, air fresheners, personal care products and insecticides through contract manufacturing services basis mainly to overseas markets, for example Europe, and to the PRC. The air pollutant emission of the Group during the reporting period is as follows:

Type of Air Pollutants	Unit	Aerosol business	Clean energy business	Investment Holding Business	2018 Total	2017 Total
Nitrogen oxides (NO_x)	kg	1,017.08	0.48	3.36	**1,020.92**	886.84
Sulfur dioxide (SO_2)	kg	25.37	0.08	0.25	**25.70**	20.13
Particular matter (PM)	kg	126.21	0.09	0.08	**126.38**	102.44

Greenhouse Gas ("GHG") Emission

GHG is considered as one of the major contributors to the climate change and global warming. The Group recognises that climate change is gradually concerned by the community as it affects our daily life and poses a risk to its business. Hence it committed to mitigating the effects of climate change and to protecting the health of employees.

Giving the majority of the GHG emission of the Group comes from energy consumption, the Group tackles the GHG emission by implemented "Greenhouse Gas Emission Management System" to monitor and control the GHG emission. Policies and procedures (as mentioned in the section "A2. Use of Resources") to encourage energy saving have been incorporated throughout the operations in order to reduce the carbon footprint.

In 2017, the Group activity acquired a group company engaged 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 330,000 m^2, representing an increase of approximately 10% as compared with that of in the corresponding period of 2017.

This can replace burning of around 6,600 tonnes of coal, representing an increase of approximately 10% as compared with that of in the corresponding period of 2017, 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 further achieve effective environmental protection. Regarding GHG emission of the Group, scope 1 direct emissions mainly consisted of combustion of fuels in stationary sources, combustion of fuels in mobile sources, and assimilation of carbon dioxides into biomass through planting of trees; and scope 2 indirect emissions mainly consisted of electricity purchased from power companies and gas purchased from Towngas. During the reporting period, purchased electricity was our major source of GHG emission. The steady increase in total GHG emission in 2018 was mainly attributable to higher levels of environmental awareness and active participation level in tree plantings, the stable electricity demand for the increase in the manufacture and sale of aerosol products and related products during the year.

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

GHG Emission[1]	Unit	Aerosol business	Clean energy business	Investment Holding Business	2018 Total	2017 Total
Scope 1[2]	tonnes of CO_2-e	181.28	2.30	14.08	**197.66**	184.52
Scope 2[3]	tonnes of CO_2-e	2,191.85	3,417.73	5.82	**5,615.40**	5,457.19
Total GHG emission	tonnes of CO_2-e	2,373.13	3,420.03	19.90	**5,813.06**	5,641.71
GHG intensity	Aerosol: tonnes of CO_2-e/ tonnes of production	**0.047**				Aerosol: 0.042
	Clean energy: tonnes of CO_2-e/m^2		**0.01**			
	Investment: tonnes of CO_2-e/m^2			**0.009**		Clean energy: 0.011

Hazardous and Non-hazardous Wastes

The Group recognizes the importance of waste reduction. Waste management measures have been introduced and implemented to minimize the amount of waste generated and the impact on the environment. 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.

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.

In order to continuously improve the hazardous wastes management, the Group has set up internal policies to separately transfer and store hazardous wastes in accordance with the relevant PRC laws and regulations, for example, the National Hazardous Waste Inventory (2008) during our production process. Besides, the Group has commissioned a qualified waste collector to handle and collect the hazardous waste produced in the aerosol product manufacturing process so as to minimize the impact on the environment. During the reporting period, the significant increase in hazardous waste amount in 2018 was mainly attributable to the increase in the frequency of replacement of filter parts of desulfurization facilities for aerosol business of the Group.

For non-hazardous waste, the waste is mainly generated from daily office operation. The Group takes initiative to reduce waste by formulating effective measures. Generally, the Group has engaged qualified recycling companies to collect and handle the waste in accordance to the Prevention and Control of environmental Pollution by Solid Waste (2015 Amendment) in the PRC and the Waste Disposal Ordinance (Cap. 354) in Hong Kong.

For office, the Group promotes the idea of green office by introducing more paperless solutions in its daily operations to reduce the volume of paper and printed materials used. The Group introduces knowledge on environmental protection to all employees and encourages them to consider environmental-friendly printing such as double-sided printing and copying. The Group also encourages employees to bring their own cups to the meeting to minimize the use of paper and paper cups. The daily operation of clean energy business and investment holding business for non-hazardous waste generation is not material for disclosure as the non-hazardous waste generated is insignificant. During the reporting period, the significant decrease in non-hazardous wastes amount in 2018 was mainly attributable to the Group's effort on implementing green office policy and waste-free initiatives in reducing wastes during the year.

The wastes generated by the Group in 2018 are as follows:

Wastes disposal	Unit	Aerosol business	Clean energy business	Investment Holding Business	2018 Total	2017 Total
Hazardous waste	tonnes	10.81	–	–	**10.81**	6.83[4]
Hazardous waste intensity	tonnes/tonnes of production	0.0002	–	–		0.0001[4]
Non-hazardous waste	tonnes	135.00	–	–	**135.00**	216.00[4]
Non-hazardous waste intensity	tonnes/tonnes of production	0.003	–	–		0.004[4]

4 The weight data was available for aerosol business segment only in 2017.

Wastewater

The Group has obtained pollutant emission permit for wastewater to ensure all wastewater generated during our production process can be safely handled according to the national safety standards before external discharge. There is a 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) in the PRC. During the reporting period, around 7,700 m^3 of wastewater was treated and discharged, representing an increase of approximately 3% as compared with that of in the corresponding period of 2017. Wastewater is strictly forbidden to be mixed with rainwater. They are collected by two separate systems to prevent pollution to ground water.

A2. USE OF RESOURCES

The Group considers environmental protection as an essential component of a sustainable and responsible business. The Group has an in-depth understanding of the importance of safeguarding sustainable development of the environment and this to attach importance to efficient utilization of resources by introducing various measures in daily business operations. It understands that staff participation is the key to achieve such goals. The Group strives to build up a working environment that emphasizes the "Green office" and "Low Carbon" policy such as a set of guidelines to improve the efficient use of energy, water and other resources for long-term sustainability.

Energy

The Group considers environmental protection as an essential component of a sustainable and responsible business. With aims of resource saving and implementation of energy saving measures, the Group actively promotes the concept of energy saving and emission reduction into the entire process of its business development and operation. For example, the Group has established policies and procedures, including "Energy Saving and Emission Reduction Control Plan" to achieve these goals. In the meantime, the Group believes that increasing environmental awareness is the basis for energy reduction initiative. 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.

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 utilization by planning the travelling routes before staff use and goods delivery. Moreover, the Group strictly complies with the Energy Conservation Law of the People's Republic of China and the relevant documents and regulations in the countries and regions where we operate. The Group is also 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.

The Group energy consumption is classified into three types – (i) purchases electricity, (ii) petrol and diesel oil, and (iii) town gas and liquefied petroleum gas. During the reporting period, purchased electricity was our major energy consumption source for daily office operation. The slight increase in total energy consumption was mainly attributable to the slightly higher consumption on purchased electricity, petrol and diesel due to the higher volume of business of the Group.

The energy consumption of the Group in 2018 is summarised as follows:

Energy consumption	Unit	Aerosol business	Clean energy business	Investment Holding Business	2018 Total	2017 Total
Purchased electricity	MWh	2,781.36	3,015.23	12.90	**5,809.49**	5,617.24
Petrol	MWh	372.85	9.39	46.21	**428.45**	381.26
Diesel	MWh	315.01	–	–	**315.01**	286.76
Liquefied petroleum gas (LPG)	MWh	80.01	–	–	**80.01**	80.84
Towngas	MWh	–	–	1.41	**1.41**	–
Total energy consumption	MWh	3,549.23	3,024.62	60.52	**6,634.37**	6,366.10
Energy intensity	Aerosol: MWh/tonnes of production	**0.071**				Aerosol: 0.06
	Clean energy: MWh/m^2		**0.009**			
	investment: MWh/m^2			**0.029**		Clean energy: 0.01

Water

Water is another important resource used for the daily operation. Regarding water consumption for clean energy business in the PRC, it does not involve any water consumption during its daily business 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. The slight increase in water consumption in 2018 was mainly attributable to the increase in manufacture and sales of aerosol and related products. The water consumption of the Group during the reporting period is as follow:

Water	Unit	Aerosol business	Clean energy business	Investment Holding Business	2018 Total	2017 Total
Water consumption	m^3	109,655	–	99	**109,754**	106,624[5]
Water intensity	Aerosol: m^3/tonnes of production	**2.18**	–			1.93[5]
	Investment: m^3/m^2			**0.05**		

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 and investment holding business. The slight increase in amount of packaging materials in 2018 was mainly attributable to the increase in manufacture and sales of aerosol and related products. The consumption of those materials of the Group during the year is summarized below:

Packaging materials	Unit	Aerosol business	Clean energy business	Investment Holding Business	2018 Total	2017 Total
Paper	tonnes	3,217.27	–	–	**3,217.27**	3,067.06
Plastic	tonnes	1,404.02	–	–	**1,404.02**	1,337.72
Metal	tonnes	8,720.02	–	–	**8,720.02**	8,363.03
Intensity	tonnes/tonnes of production	0.27	–	–	**0.27**	0.23[6]

5 The water consumption data is available for aerosol business segment only in 2017.

6 The weight of packaging materials is available for aerosol business segment only in 2017.

A3. THE ENVIRONMENT AND NATURAL RESOURCES

As a manufacturing company, we recognise our impact on the environment in our daily operations. 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 in the PRC. 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.

B. SOCIAL ASPECTS

The Group recognizes that maintenance of strong, healthy and friendly business relations with employees, supply chains, and a business is connected or expected to have a connection, whether internal or external, is the foundation for the Group's success and development. The Group highly considers employees as important assets and is committed to earning respect from employees, maintaining work-life balance, and making them to grow together with us. With supporting business sustainable development, the Group works closely with suppliers to manage social risks. Also, with a goal of understand the needs and interests of communities where the issuer operates, the Group takes its own initiatives to actively contribute to the society in various ways.

Environmental, Social and Governance Report

EMPLOYMENT AND LABOUR PRACTICES

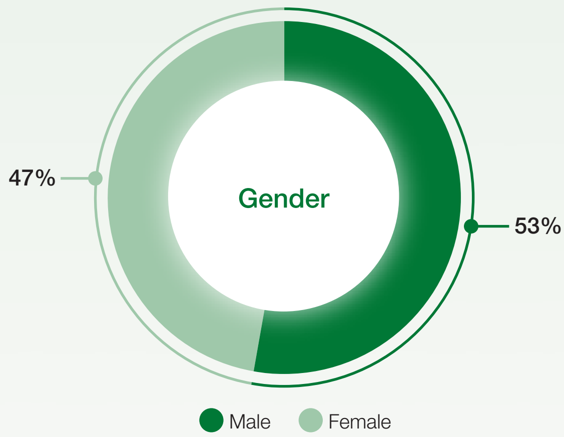
B1. EMPLOYMENT

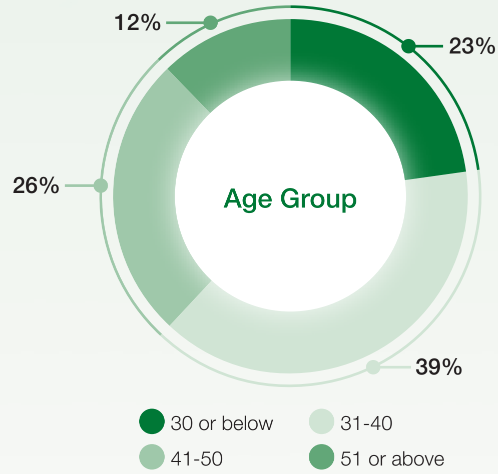
The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide a good working environment to employees where they can have a safe and healthy workplace to engage and perform to the satisfaction of the Group. 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 set 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.

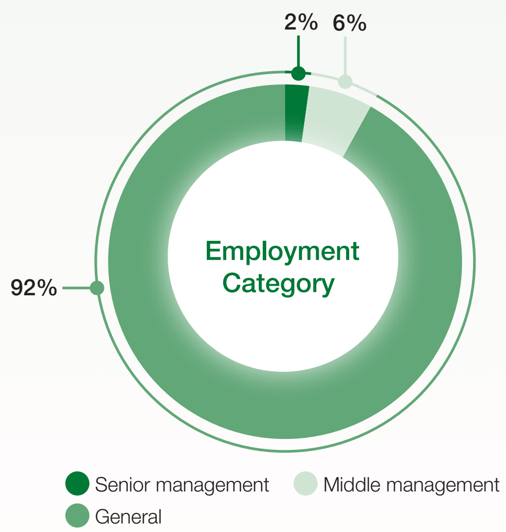
The Group respects the employees' rights. All of the employees of the Group are treated equally. Their employment, remuneration and promotion are not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status. 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.

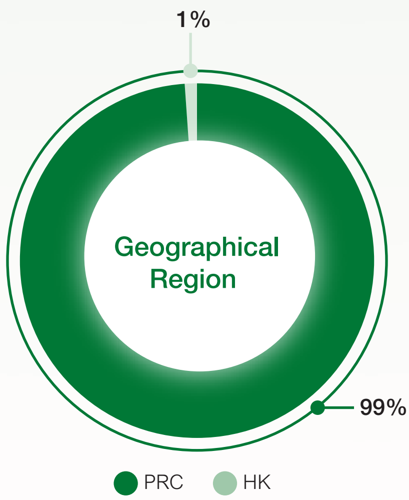
The Group strictly complies with the national laws and the system of the Group, and to refuse violation of business ethics. Throughout the year, the Group fully complied with all of the relevant laws and regulations in the countries and regions, such as the Employment Ordinance (Cap. 57), the Minimum Wage Ordinance (Cap. 608), the Labour Law of the People's Republic of China, and other relevant regulations where we operated 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 and Hong Kong.

At the end of the reporting period, the Group has 465 employees located in the PRC and Hong Kong. Below is the employee breakdown by gender, age group, employment category and geographical region.









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	
– Male	44
– Female	47
By age group	
– 30 years old or below	87
– 31-40 years old	33
– 41-50 years old	37
– 51 years old or above	7
By geographical region	
– PRC	46
– HK	17
Overall	**45**

B2. HEALTH AND SAFETY

The Group takes into consideration every precaution to establish a healthy and safe working environment for its employees. In order to provide better safety working environment for all staff, the Group has obtained OHSAS 18001:2007 Occupational Health and Safety Management Certification which is an international standard to prove the Group has established an occupational health management system to identify, control and reduce the risks associated with health and safety within the workplace. In addition, the Group's system also strictly complies with the rules and guidelines stipulated in the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases, the Occupational Safety and Health Ordinance (Cap. 509) by the Labour Department in Hong Kong and any other applicable laws and regulations. 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.

B3. 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 appropriately 30,000 hours (2017: 23,000 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	**Average training hours** *(hours/employee)*	**Percentage of employee trained** *(%)*
By gender		
– Male	69	99
– Female	68	100
By employment category		
– Senior management	68	80
– Middle management	68	96
– General	69	100

B4. LABOUR STANDARDS

The Group respects the human rights of employees, and is strongly against the employment of child labour and forced labour. The Group is strictly in compliance with the relevant laws and regulations, such as the Labor Law of the People's Republic of China. We pursue fair and equitable principle, promote equal opportunity in recruiting and promotion for employees and prohibit any kind of forced labor. The Group solely considers the knowledge, character, ability and experience of candidates to meet the appropriate conditions of service, regardless of his/her gender, race and family status, etc. The Group strictly complies with the Provisions on the Prohibition of Using Child Labor issued by the State Council of the People's Republic of China. 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

B5. 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	**250**
– Zhejiang Province	107
– Shanghai	45
– Guangdong Province	46
– Jiangsu Province	32
– Beijing	1
– Hebei Province	2
– Anhui Province	4
– Fujian Province	3
– Liaoning Province	1
– Shandong Province	5
– Jiangxi Province	2
– Tianjin	1
– Henan Province	1
Overseas	**5**
Total	**255**

B6. PRODUCT RESPONSIBILITY

To continuously improve the product quality for pursuing customer satisfaction of our products, the Group has continuously improved its quality management system in accordance with the latest version of ISO 9001:2015 standard which is a revised high-level structure compared to previous version 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.

B7. 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 including the Prevention of Bribery Ordinance (Cap. 201) and the Criminal Law of the People's Republic of China and there was no legal case regarding corrupt practices brought against the Group or its employees.

COMMUNITY

B8. 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:

- In April 2018, the Group made donation of anti-mosquito and cleaning products, which were worth RMB35,000, to elderly people in a village in Zhejiang to support their living. Donation of these materials were highly praised by the villager for great care and improving living standard.

- In July 2018, the Group's management visited a village in Zhejiang and proposed recommendation and advice on improving their living standard for supporting poverty alleviation via active participation in "百企結百村" activity.

- During 2018, "新時代浙江省 - 千名好支書" was awarded to one of the Group's management, Mr. 馬加健.

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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 2018.

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 discussion and analysis as required by Schedule 5 of the Companies Ordinance (Cap. 622), including an analysis using financial key performance indicators, a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the section headed "Management Discussion and Analysis" of this report. This discussion forms part of this Directors' Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment, giving back to the community and achieving sustainable growth. Details are set out in the section headed "Environmental, Social and Governance Report" of this Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with relevant laws and regulations that have a significant impact on the business and operation of the Group. For the year ended 31 December 2018, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on page 77.

The Board resolved not to recommend any final dividend for the year ended 31 December 2018.

Directors' Report

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders") to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's financial results, the general financial condition of the Group, the Group's current and future operations, the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants, liquidity position and capital requirement of the Group, surplus received from the Company's subsidiaries and any other factors that the Board deem appropriate. The Company's ability to pay dividends is also subject to the requirements of the Listing Rules and all relevant applicable laws, rules and regulations in the Cayman Islands, Hong Kong and the Articles of Association.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years is set out on page 196 of this report. This summary does not form part of the audited consolidated financial statements.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 May 2019 to Thursday, 23 May 2019, 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 Thursday, 23 May 2019, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 17 May 2019.

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 26 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB120.9 million (2017: RMB144.2 million). This includes the Company's share premium account of approximately RMB165.9 million as at 31 December 2018 (2017: 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:

	2018 %	2017 %
Sales		
– the largest customer	**26.1**	26.2
– five largest customers combined	**59.4**	62.0
Purchases		
– the largest supplier	**25.2**	26.4
– five largest suppliers combined	**52.1**	53.0

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.

Directors' Report

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 2018.

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)*
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

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.

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. Chen Baoyuan, Mr. Chan Yin Tsung and Mr. Ruan Lianfa shall therefore be retired at the forthcoming AGM by rotation and, being eligible, offer themselves for re-election.

In compliance of Rule 3.10(1) 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 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)*

As at 31 December 2018 and 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 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 (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	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 complied based on the total number of issued shares (i.e. 491,800,000 shares) of the Company as at 31 December 2018.

(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 2018, 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 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 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	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 complied based on the total number of issued shares of the Company (i.e. 491,800,000 shares) as at 31 December 2018.

(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.

(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 (equivalents 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, 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 2018.

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.

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

During the Reporting Period, a total of 11,800,000 ordinary shares were allotted and issued to Perfect Century Group Limited (the "Vendor"), at the issue price of HK$1.60 per share on 29 March 2018. On the same date, 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. Please refer to note 20, note 25 and note 32 to the consolidated financial statements of this report and the announcements of the Company dated 29 November 2017, 5 December 2017, 28 February 2018 and 29 March 2018 for further details.

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

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 31 December 2018 till the date of this report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers. The Board appointed BDO Limited as the auditor of the Company with effect from 1 August 2018 to fill the casual vacancy following the resignation of PricewaterhouseCoopers such that the consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by BDO Limited, who will retire at the forthcoming AGM of the Company and, being eligible, offer themselves for re-appointment.

By order of the Board

Yu Yuerong
Chairman

Hong Kong, 28 March 2019

Independent Auditor's Report

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

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

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF CHINA LUDAO TECHNOLOGY COMPANY LIMITED
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Ludao Technology Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 77 to 195, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018, 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.

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

Independent Auditor's Report

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.

Provision for expected credit losses ("ECLs") of trade receivables

As at 31 December 2018, the Group's trade receivables, gross and loss allowances thereon amounted to approximately RMB131,703,000 and RMB103,000 respectively.

ECLs for trade receivables is based on management's estimated of the lifetime ECLs to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and an assessment of both the current and forecast general economic conditions, all of which involve significant degree of management judgment.

We have identified ECLs assessment of trade receivables as a key audit matter because the assessing ECLs of trade receivables is a subjective area as it requires the management's judgment and uses of estimates and the significance of the carrying amounts of trade receivables to the Group's consolidated financial statements.

Refer to Note 4 "Critical accounting estimates and judgments" and Note 19 "Trade and other receivables" to the consolidated financial statements.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the management's ECLs assessment on trade receivables included:

- assessed the application of the Group's policy for calculating the ECLs;

- assessed whether the calculations of ECLs was in accordance with HKFRS 9;

- assessed the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgments, including evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and

- tested on a sample basis the ageing of trade receivables at the end of year.

Independent Auditor's Report

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2018.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include 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.

Independent Auditor's Report

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 skepticism 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.

Independent Auditor's Report

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 directors, 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.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong, 28 March 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	**405,047**	395,741
Cost of sales		**(309,907)**	(307,346)
Gross profit		**95,140**	88,395
Other income	6	**4,275**	1,828
Other gains/(loss) – net	6	**9,823**	(960)
Selling expenses		**(22,744)**	(18,608)
Administrative expenses		**(46,356)**	(41,196)
Operating profit		**40,138**	29,459
Finance income	9	**2,369**	2,027
Finance costs	9	**(18,950)**	(6,808)
Finance costs – net	9	**(16,581)**	(4,781)
Share of results of a joint venture	13	**5,126**	2,054
Profit before income tax		**28,683**	26,732
Income tax expense	11	**(5,444)**	(4,882)
Profit for the year		**23,239**	21,850
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(4,818)**	(583)
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income	21	**(3,495)**	–
Other comprehensive income for the year, net of tax		**(8,313)**	(583)
Total comprehensive income for the year attributable to the owners of the Company		**14,926**	21,267
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 82 to 195 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	As at 31 December 2018 *RMB'000*	 2017 *RMB'000*
ASSETS			
Non-current assets			
Investments in joint ventures	*13*	**62,418**	54,551
Land use rights	*14*	**5,062**	5,186
Property, plant and equipment	*15*	**101,074**	96,237
Investment property	*16*	**11,700**	7,900
Intangible assets	*17*	**266**	361
Deferred income tax assets		**331**	352
Financial asset at fair value through other comprehensive income	*21*	**148,660**	–
Financial asset at fair value through profit or loss	*21*	**2,442**	–
Prepayments for investment	*20*	**–**	70,219
Prepayments for property, plant and equipment		**2,247**	2,409
		334,200	237,215
Current assets			
Inventories	*18*	**44,034**	56,029
Trade and other receivables	*19*	**221,309**	181,821
Amount due from a joint venture	*13*	**500**	–
Financial asset at fair value through profit or loss	*21*	**6,206**	–
Cash and cash equivalents	*22*	**69,538**	54,268
Short-term bank deposits	*22*	**103,099**	88,139
Pledged bank deposits	*23*	**17,324**	23,198
		462,010	403,455
Total assets		**796,210**	640,670
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*25*	**3,901**	3,801
Share premium	*25*	**150,143**	134,143
Other reserves	*26*	**55,660**	60,080
Retained earnings		**178,242**	158,896
Total equity		**387,946**	356,920

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Bonds	*30*	**15,102**	46,650
Note	*31*	**102,420**	–
Convertible bonds	*32*	**31,456**	–
Deferred government grants	*28*	**739**	875
Deferred income tax liabilities		**949**	377
		150,666	47,902
Current liabilities			
Trade and other payables	*29*	**134,761**	140,775
Contract liabilities	*6*	**9,583**	–
Current income tax liabilities		**1,208**	394
Financial liabilities at fair value through profit or loss	*32*	**2,040**	–
Bank borrowings	*33*	**59,906**	44,602
Bonds	*30*	**50,100**	–
Loans from a third party	*34*	**–**	50,077
		257,598	235,848
Total liabilities		**408,264**	283,750
Total equity and liabilities		**796,210**	640,670

The notes on pages 82 to 195 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 77 to 195 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital *RMB'000*	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 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**
Balance at 1 January 2018	**3,801**	**134,143**	**60,080**	**158,896**	**356,920**
Comprehensive income					
Profit for the year	–	–	–	23,239	23,239
Changes in fair value of equity investments at fair value through other comprehensive income	–	–	(3,495)	–	(3,495)
Currency translation differences	–	–	(4,818)	–	(4,818)
Total comprehensive income	–	–	(8,313)	23,239	14,926
Issuance of share	100	16,000	–	–	16,100
Transaction with owners					
Profit appropriation	–	–	3,893	(3,893)	–
Balance at 31 December 2018	**3,901**	**150,143**	**55,660**	**178,242**	**387,946**

The notes on pages 82 to 195 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	*36*	**16,334**	11,015
Interest paid		**(12,994)**	(5,018)
Income tax paid		**(4,040)**	(4,419)
Net cash (used in)/generated from operating activities		**(700)**	1,578
Cash flows from investing activities			
Payment for acquisition of joint venture	*13*	**(2,550)**	(52,000)
Payment for costs on acquisition of a joint venture	*13*	**–**	(497)
Payment for acquisition of equity investment	*21*	**(42,251)**	–
Prepayment for investment	*20*	**–**	(70,219)
Purchase of property, plant and equipment		**(14,598)**	(12,461)
Proceeds from disposals of property, plant and equipment		**47**	–
Purchase of intangible assets		**–**	(111)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	19,240
Decrease/(increase) of pledged bank deposits		**5,874**	(8,827)
Increase of short-term bank deposits		**(14,960)**	(7,039)
Interest received		**2,369**	2,027
Net cash used in investing activities		**(66,069)**	(129,887)
Cash flows from financing activities			
Proceeds from issue of bonds, net of issuance costs		**14,064**	44,386
Proceeds from issue of note, net of insurance costs		**97,749**	–
Proceeds from bank borrowings		**57,998**	49,602
Repayments of bank borrowings		**(45,106)**	(7,191)
(Repayment of)/proceeds from loans from a third party		**(49,626)**	50,077
Proceeds from notes payable		**120,971**	162,413
Repayments of notes payable		**(117,353)**	(142,177)
Net cash generated from financing activities		**78,697**	157,110
Net increase in cash and cash equivalents		**11,928**	28,801
Cash and cash equivalents at beginning of the year	*22*	**54,268**	25,851
Currency translation differences		**3,342**	(384)
Cash and cash equivalents at end of the year	*22*	**69,538**	54,268

The notes on pages 82 to 195 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 45.20% 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 2019.

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 ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention, except for investment property and certain financial instruments, which are measured at fair value as explained in the accounting policies set out below.

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 new standards, amendments and interpretations to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 40	Transfers of Investment Property
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (equity instruments)	Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(i) Classification and measurement of financial instruments *(Continued)*

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 RMB'000	Carrying amount as at 1 January 2018 under HKFRS 9 RMB'000
Trade and other receivables (excluding prepayments)	Loans and receivables	Amortised costs	110,553	110,553
Cash and cash equivalents	Loans and receivables	Amortised costs	54,268	54,268
Short-term bank deposits	Loans and receivables	Amortised costs	88,139	88,139
Pledged bank deposits	Loans and receivables	Amortised costs	23,198	23,198

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECLs for trade receivables, financial assets at amortised costs, earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current year.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

2.1 **Basis of preparation** *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Measurement of ECLs *(Continued)*

For other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's debt investment at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

The Group rebutted the presumption of a financial asset has increased credit risk significantly if it is more than 30 days past due based on the customers' past payment history and current ability of making payments.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

2.1 **Basis of preparation** *(Continued)*

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

(a) *New and amended standards adopted by the Group (Continued)*

A. HKFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Measurement of ECLs *(Continued)*

The Group rebutted the presumption of default under ECLs model for a financial asset over 90 days past due based on the customers' past payment history and current ability of making payments.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 2 years past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECLs model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and invoice date. The loss allowance as at 1 January 2018 was determined as follows for trade receivables as follows:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Impact of the ECLs model *(Continued)*

(a) Impairment of trade receivables *(Continued)*

1 January 2018	Up to 3 months	3 to 6 months	6 to 12 months	Over 12 months	Total
Expected credit loss rate (%)	0.01	0.02	0.03	4.75	N/A
Gross carrying amount (RMB'000)	69,860	29,070	5,040	1,409	105,379
Loss allowance (RMB'000)	7	6	2	67	82

After performing the assessment of ECLs on the Group's existing trade receivables, no expected credit loss allowance was recognised by the Group as at 1 January 2018 as the amount is not material.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Impact of the ECLs model *(Continued)*

(b) Impairment of other receivables

The Group applies the general approach to measure ECLs for all other financial assets (including other receivables) which are subject to impairment under HKFRS 9. The ECLs are based on 12-month ECLs as there has not been a significant increase in credit risk since initial recognition. The management considers that the ECLs are immaterial upon transition to HKFRS 9 as of 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not have any hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the measurement adjustments (including impairment under ECLs model) arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

A. HKFRS 9 – Financial Instruments *(Continued)*

(iv) Transition *(Continued)*

The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA").

- The determination of the business model within which a financial asset is held.

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that was not completed before 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(a) New and amended standards adopted by the Group (Continued)

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") *(Continued)*

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. Based on the assessment of the Group, the adoption of HKFRS 15 from 1 January 2018 has resulted in changes of accounting policies of the Group, however, it does not have significant impact on the timing and amounts of revenue recognition of the Group, and no adjustment to the opening balance of equity at 1 January 2018 have been made.

Revenue from sales of goods and provision of technical services are recognised at a point in time as when the control of the goods/services has been transferred to the customers and there is no unfulfilling performance obligation after the acceptance of the goods.

Upon the adoption of HKFRS 15, if there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognise a contract asset. No contract asset is recognised upon transition and at the end of reporting period. A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Upon the adoption of HKFRS 15, advance receipts from customers previously included as "Trade and other payables" (Note 29) were reclassified to "Contract liabilities".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") *(Continued)*

The following tables summarised the amounts by which each financial statement line item was affected as at 1 January 2018 and 31 December 2018 as a result of the adoption of HKFRS 15. Line items that were not affected by the changes have not been included.

	As at 1 January 2018 Increase/ (decrease) RMB'000	**As at 31 December 2018 Increase/ (decrease) RMB'000**
Liabilities		
Contract liabilities	4,599	**8,943**
Trade and other payables	(4,599)	**(8,943)**
	–	**–**

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

C. HK(IFRIC)–Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

D. Amendments to HKAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Change in accounting policy and disclosure (Continued)

(a) New and amended standards adopted by the Group (Continued)

D. Amendments to HKAS 40, Investment Property – Transfers of Investment Property *(Continued)*

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

E. Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020 application of the amendments continue to be permitted.
4 Effective for annual periods beginning on or after 1 January 2020

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)

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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 RMB9,282,000. 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)

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

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)

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

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)

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Amendments to HKFRS 3 – Definition of a Business

The amendments improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition of material to make it easier for entities to make materiality judgements. The definition of material, an important accounting concept in HKFRS Standards, helps entities decide whether information should be included in their financial statements.

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 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Merger accounting for Reorganisation

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.2 Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains unless the 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

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 in the consolidated financial statement.

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 ("HKD"). 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 gains/(loss) – 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(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 less impairment losses. 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 gains/(loss) – 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 gains/(loss) – 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.A Financial instruments (accounting policies applied from 1 January 2018)

2.11.A.1 Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

2.11.A.1 Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There is one measurement category into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

2.11.A.2 Initial recognition and measurement

Financial assets is recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus or minus, in the case of a financial asset not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(i) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(ii) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

2.11.A.3 Impairment loss on financial assets

The Group recognises loss allowances for ECLs on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

2.11.A.3 Impairment loss on financial assets (Continued)

The Group rebutted the presumption of a financial asset has increased credit risk significantly if it is more than 30 days past due based on the customers' past payment history and current ability of making payments.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group rebutted the presumption of default under ECLs model for a financial asset over 90 days past due based on the customers' past payment history and current ability of making payments.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 2 years past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

2.11.A.4 Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank borrowings, loans from a third party and debt element of convertible bonds are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

2.11.A.5 Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible bonds into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

2.11.A.5 ***Convertible bonds*** *(Continued)*

Convertible bonds with conversion options which are not settled by exchanging a fixed amount of cash for a fixed number of the Company's own shares comprise a derivative component and a liability component.

At initial recognition the derivative component of the convertible notes is measured at fair value. Any excess of the proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs relating to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability component. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value, with changes in fair value recognised immediately in profit or loss. The liability component is subsequently measured at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The liability component is classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

2.11.A.6 Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

2.11.A.7 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

2.11.A.8 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2.11.A.9 Derecogntion

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

2.11.B Financial instruments (accounting policies applied until 31 December 2017)

The group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the group's previous accounting policy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.B Financial instruments (accounting policies applied until 31 December 2017) *(Continued)*

2.11.B.1 Financial assets

The Group classifies its financial assets as: (i) financial assets at FVTPL; 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.

Financial assets at FVTPL

Financial assets FVTPL 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 categorised 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.

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.B Financial instruments (accounting policies applied until 31 December 2017) *(Continued)*

2.11.B.1 Financial assets *(Continued)*

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.B Financial instruments (accounting policies applied until 31 December 2017) *(Continued)*

2.11.B.2 Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.11.B.3 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

2.11.B.4 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11.B Financial instruments (accounting policies applied until 31 December 2017) *(Continued)*

2.11.B.5 Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

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 the estimated costs of completion and the estimated costs necessary to make the sale.

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.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, 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 end of reporting period 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 end of reporting period 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

2.23.A Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception./ Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

2.23.A Revenue recognition (accounting policies applied from 1 January 2018) (Continued)

(a) *Sales of goods*

Customers obtain control of the goods when the goods are delivered to and accepted by customers according to the contract terms. Revenue is thus recognised at the point in time when the customers accepted the goods. There is generally only one performance obligation in a contract. Invoices are usually payable on demand up to 180 days. There are no right of return and the provision of rebates is not common.

(b) *Technical services income*

Technical services generally contain two performance obligations (i.e. the feasibility analysis and the application of technique) and revenue is recognised at the point in time when the promised services is satisfied. The considerations generally include no variable amount. Invoices are usually payable on demand or up to 180 days.

There are generally two performance obligations and the considerations include no variable amount.

(c) Interest income is recognised on a time-proportion basis using effective interest method.

(d) Rental income from leasing of investment property will continue to be accounted for in accordance with HKAS 17 “Lease”.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

2.23.B Revenue recognition (accounting policies applied until 31 December 2017)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

2.23.C Contract assets and liabilities (accounting policies applied from 1 January 2018)

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.23.D Contract costs (accounting policies applied from 1 January 2018)

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 statement of financial position. Rental income from operating lease is recognised over the term of the lease on a straight-line basis.

2.25 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

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 HKD and United States dollars ("USD"). The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Assets		
HKD and USD	**153,761**	98,720
Liabilities		
HKD and USD	**227,593**	107,960

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	
	2018	2017
	RMB'000	*RMB'000*
5% appreciation in exchange rate against HKD and USD		
Increase/(decrease) in the profit for the year	**3,692**	462

(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. In the prior year, the impairment of trade and other receivables was assessed based on the incurred loss model and in accordance with accounting policy stated in Note 2.11B. Based on the expected recoverability and timing for collection of the outstanding balance and trading credit terms, the Group maintained a provision for doubtful accounts and actual losses incurred have been within management's expectations.

As at 31 December 2018, the Group had certain concentration of credit risk as 66% (2017: 74%) of the total trade receivables which were due from the Group's five largest customers.

The Group measures loss allowances for trade receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables by invoice date as at 31 December 2018:

	Expected loss rate *(%)*	Gross carrying amount *(RMB'000)*	Loss allowance *(RMB'000)*
Up to 3 months	0.01	81,592	8
3 to 6 months	0.02	33,939	7
6 to 12 months	0.03	12,542	4
Over 12 months	4.75	3,630	172
	N/A	131,703	191

After performing the assessment of expected credit loss on the Group's existing trade receivables, no expected credit loss allowance was recognised by the Group as at 31 December 2018 as the amount is not material.

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

(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 2018				
Trade and other payables (excluding other taxes payable, payroll payable	87,146	41,626	–	128,772
Bank borrowings	56	61,381	–	61,437
Bonds	285	52,780	16,848	69,913
Note	–	9,462	109,875	119,337
Convertible bonds	–	–	31,456	31,456
	87,487	165,249	158,179	410,915
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

(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 2018 and 2017, 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	
	2018	2017
	RMB'000	*RMB'000*
Bank borrowings	**59,906**	44,602
Loans from a third party	**–**	50,077
Notes payable	**86,578**	82,960
Bonds	**65,202**	46,650
Note	**102,420**	–
Convertible bonds	**31,456**	–
Total borrowings	**345,562**	224,289
Total equity	**387,946**	356,920
Gearing ratio	**89%**	63%

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).

Disclosures of level in fair value hierarchy at 31 December 2018	*Note*	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial asset at FVOCI					
Unlisted equity securities	*21*	–	–	148,660	148,660
Financial asset at FVTPL					
Profit guarantee	*21*	–	–	8,648	8,648
Total financial assets		–	–	157,308	157,308
Financial liabilities at FVTPL					
Derivative component of convertible bonds	*32*	–	–	2,040	2,040

The were no financial assets and liabilities measured at fair value at 31 December 2017.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the changes in level 3 items for the years ended 31 December 2018 and 31 December 2017:

	Unlisted equity securities *RMB'000*	Profit guarantee *RMB'000*	Derivative component of convertible bonds *RMB'000*
At 1 January 2017, 31 December 2017 and 1 January 2018	–	–	–
Acquisitions	152,155	7,857	1,510
Changes recognised in profit or loss	–	791	530
Losses recognised in other comprehensive income	(3,495)	–	–
At 31 December 2018	148,660	8,648	2,040

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) Provision for ECL of trade receivables

Before the adoption of HKFRS 9, the Group determines the provision for ECL on trade receivables (Note 19). This estimate is based on the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information. As at 31 December 2018, the provision for impairment on trade receivables are RMB103,000 (2017: RMB323,000) respectively. Since the initial adoption of HKFRS 9, the Group makes allowances on trade receivables based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the ECL calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in Note 19.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) *Provision for inventories*

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

(c) *Useful lives of property, plant and equipment*

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

(d) *Fair value of investment property*

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.

(e) *No equity accounting applied for the investment in Ever Clever Group Limited ("Ever Clever") in which the Group holds 25% equity interest*

No significant influence in Ever Clever

In preparing the consolidated financial statements, significant judgment has been applied by the management in the determination of the investment of 25% equity interest in Ever Clever under Hong Kong Accounting Standard 28 (2011) "Investments in Associates and Joint Ventures" ("HKAS 28"). Management has assessed the definition of an associate under HKAS 28 and given that there is no representation of the Group on the board of directors or equivalent governing body of Ever Clever and the Group has not participated in policy-making processes, including participation in decisions about dividends or other distributions, management has concluded that the investment of 25% equity interest in Ever Clever does not fall within the definition of an associate under HKAS 28.

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.

Geographical information

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

Revenue from customers

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**107,811**	96,401
United States of America	**171,265**	166,220
Europe	**7,068**	12,628
Japan	**33,440**	43,071
Chile	**64,884**	55,616
Others	**20,579**	21,805
	405,047	395,741

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 2018 and 2017 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:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**105,574**	103,672
Customer B	**62,490**	53,772
Customer C	**23,818**	33,962
Customer D	**n/a**	30,329
Customer E	**n/a**	23,875
Customer F	**33,159**	–

n/a Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2018

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

	2018 *RMB'000*	2017 *RMB'000*
Revenue		
Sales of goods	**405,047**	395,741
Other income		
Government grants	**659**	607
Technical service fee	**2,388**	1,209
Rental income	**314**	–
Others	**914**	12
	4,275	1,828
Other gains/(loss) – net		
Foreign exchange gain/(loss)	**61**	(2,785)
Fair value gain on investment property	**3,800**	1,500
Change in fair value of financial liabilities at FVTPL	**(530)**	–
Change in fair value of financial asset at FVTPL	**791**	–
Gain on profit guarantee *(Note)*	**5,706**	–
Others	**(5)**	325
	9,823	(960)

Revenue from contract with customers disaggregated revenue information

	2018 *RMB'000*
Revenue under HKFRS 15	
At point in time	
– Sales of goods	**405,047**
– Technical service fee	**2,388**
	407,435

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

Note:

On 4 July 2017, the Company entered into a sale and purchase agreement (the "Agreement") to acquire 50% equity interest in Illustrious Success Limited ("Illustrious Success") at a consideration of RMB52,000,000 (the "Consideration") from Wealth Linkage Development Limited（福領發展有限公司）a third party independent of the Company and its connected persons (the "Wealth Linkage"). The acquisition of 50% equity interest in Illustrious success was completed on 7 July 2017.

Pursuant to the Agreement, Wealth Linkage irrevocably undertakes to the Company that Illustrious Success and its subsidiaries ("Illustrious Success Group") shall achieve the audited net profit after tax (the "PAT") on a consolidated basis of RMB12,000,000 for the year ended 31 December 2018 compiled by an accounting firm acceptable to the Company (the "Profit Guarantee of Illustrious Success Group"). In the event that the amount of shortfall of the PAT for the relevant financial year is more than 5% of the Profit Guarantee of Illustrious Success Group for that relevant financial year, Wealth Linkage shall pay to the Company a monetary compensation, the amount of which shall be calculated based on the formula below:–

(The shortfall of the PAT for the relevant financial year ÷ the Profit Guarantee of Illustrious Success Group for the relevant financial year) x the Consideration

The Directors of the Company are of the opinion that the PAT on a consolidated basis for the year ended 31 December 2018 of Illustrious Success Group was approximately RMB10,634,000 according to its consolidated financial statements. Since the shortfall of the Profit Guarantee of Illustrious Success Group was approximately RMB1,366,000, a gain of approximately RMB5,706,000, which includes exchange re-translation effect, being the compensation payable by Wealth Linkage, was recognised in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2018.

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

The following table provides information about contract liabilities from contracts with customers.

	As at 31 December 2018 *RMB'000*	As at 1 January 2018 *RMB'000* (restated)	As at 31 December 2017 *RMB'000*
Contract liabilities	9,583	4,599	–

The contract liabilities are mainly related to the advance consideration of sales of goods received from customers.

Movements in contract liabilities

	RMB'000
At 31 December 2017	–
Reclassification on adoption of HKFRS 15 (Note 2.1.1(a)B)	4,599
Balance as at 1 January 2018	4,599
Revenue recognised that was included in the contract liabilities balance at beginning of year	(3,405)
Increase due to cash received, excluding amount recognised as revenue during the year	8,389
Balance at 31 December 2018	9,583

Note: Upon the adoption of HKFRS 15, amounts previously included as "Trade and other payables" (Note 29) have been reclassified to "Contract liabilities".

The Group's contracts usually have duration of one year or less from date of contract inception to date of satisfaction of performance obligation. The Group has applied the practical expedient and therefore does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less.

7 EXPENSES BY NATURE

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

	2018 *RMB'000*	2017 *RMB'000*
Depreciation and amortisation *(Note 14,15,17)*	**10,120**	7,621
Employee benefit expenses, excluding amount included in share option expenses and research and development costs *(Note 8)*	**34,116**	33,080
Raw materials used	**295,820**	273,530
Changes in inventories of finished goods and work in progress	**(10,008)**	11,205
Water and electricity expenditures	**3,480**	3,530
Transportation and travelling expenses	**19,382**	13,406
Telecommunication expenses	**535**	543
Advertising expenses	**414**	600
Other tax expenses	**2,931**	2,556
Research and development costs		
– Employee benefit expenses	**4,477**	5,592
– Materials and others, excluding depreciation and amortisation	**5,986**	5,030
Auditor's remuneration		
– Audit services	**1,086**	1,756
Entertainment expenses	**1,770**	1,914
Operating lease expenses	**4,091**	2,239
Professional services fees	**2,942**	1,924
Other expenses	**1,865**	2,624
	379,007	367,150

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2018 *RMB'000*	2017 *RMB'000*
Wages, allowances and bonus	**34,188**	34,710
Retirement scheme contribution	**2,417**	2,151
Others	**1,988**	1,811
	38,593	38,672

(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 2018 (2017: 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 two (2017: three) directors whose emoluments are reflected in the analysis in Note 40. The emoluments paid to the remaining three individuals (2017: two) during the year are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,244**	947
Retirement scheme contribution	**42**	22
	1,286	969

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

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

	Number of individuals	
	2018	2017
Emoluments bands		
Nil to HKD1,000,000	**3**	2

9 FINANCE COSTS – NET

	2018	2017
	RMB'000	*RMB'000*
Interest income	**2,369**	2,027
Foreign exchange loss	**(782)**	(1,790)
Interest expense		
– Bonds	**(6,664)**	(2,348)
– Bank borrowings	**(2,072)**	(677)
– Other loans	**(1,685)**	(1,993)
– Note instrument	**(6,261)**	–
– Convertible bonds *(Note 32)*	**(1,486)**	–
	(18,950)	(6,808)
Finance costs – net	**(16,581)**	(4,781)

10 TOTAL FOREIGN EXCHANGE

	2018 *RMB'000*	2017 *RMB'000*
Net finance expense *(Note 9)*	**(782)**	(1,790)
Other gains/(loss) *(Note 6)*	**61**	(2,785)
Total	**(721)**	(4,575)

11 INCOME TAX EXPENSE

	2018 *RMB'000*	2017 *RMB'000*
Current income tax	**4,851**	4,637
Deferred income tax	**593**	245
	5,444	4,882

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 (2017: 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:

	2018 *RMB'000*	2017 *RMB'000*
Profit before income tax	**28,683**	26,732
Less: share of results of a joint venture	**(5,126)**	(2,054)
	23,557	24,678
Tax calculated at the tax rate of 15% (2017: 15%)	**3,534**	3,702
Additional research and development deductible expenses	**(1,283)**	(844)
Effects of income not taxable and expenses not deductible for tax purposes and others	**3,193**	2,024
	5,444	4,882

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 2018, the Group did not recognise deferred tax liabilities of RMB21,931,400 (2017: RMB18,428,000) on RMB219,314,000 (2017: RMB184,280,000) 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.

	2018	2017
Profit attributable to owners of the Company (RMB'000)	**23,239**	21,850
Weighted average number of ordinary shares in issue (thousands of shares)	**488,987**	480,000
Basic and diluted 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. During the year ended 31 December 2017, the outstanding share options are anti-dilutive and all share options are lapsed. Therefore, the diluted earnings per share of the Company equals the basic earnings per share as at 31 December 2017. During the year ended 31 December 2018, diluted earnings per share is the same as basic earnings per share. There is no dilutive effect on the convertible bonds for the acquisition of 25% equity interest in Ever Clever in 2018, as they are anti-dilutive.

13 INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
As at 1 January	**54,551**	–
Additions	**2,550**	52,000
Cost related to acquisition	**–**	497
Share of results	**5,126**	2,054
Exchange adjustment	**191**	–
As at 31 December	**62,418**	54,551

As at 31 December 2018, the Group had interests in the following joint ventures:

Name	Form of business structure	Place of incorporation/ establishment	Issued share capital/paid-up registered capital	Equity interest held	Principal activities and place of operation
Illustrious Success (Note i)	Limited liability company	The British Virgin Islands ("BVI")	5,000 ordinary shares of USD5,000	**50%**	Investment holding, BVI
Sinopharm Jinyue Aerosol Group Co. Ltd. ("Sinopharm Jinyue Aerosol") (Note ii)	Limited liability company	The PRC	RMB5,000,000	**51%**	Research and development, manufacture and sale of medical and edible aerosol products, the PRC

13 INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

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

Illustrious Success is a company limited by shares incorporated in 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.

(ii) On 11 September 2017, Ludao PRC, Sinopharm Traditional Chinese Medicine Co., Ltd. and Lu Xian Cao Tang (Jilin) Investment Consultancy Limited entered into a capital contribution agreement for the formation of the joint venture, Sinopharm Junyue Aerosol Co. Ltd. ("Sinopharm Junyue Aerosol").

Sinopharm Junyue Aerosal is mainly engaged in investing and developing projects for the research and development, manufacture and sale of medical and edible aerosol products. Details of the capital contribution agreement were disclosed in the Company's announcement dated 11 September 2017. During the year ended 31 December 2018, the Group contributed RMB2,550,000 to the Sinopharm Junyue Aerosol.

13 INVESTMENTS IN JOINT VENTURES *(Continued)*

Summarised financial information for Illustrious Success:

	2018 *RMB'000*	2017 *RMB'000*
Current assets		
Cash and cash equivalents	**806**	5,740
Trade and other receivables	**12,637**	1,953
Total current assets	**13,443**	7,693
Non-current assets		
Payments for land use rights	**1,716**	1,750
Property, plant and equipment	**22,820**	21,733
Intangible asset (a)	**48,057**	50,057
Total non-current assets	**72,593**	73,540
Current liabilities		
Trade and other payables	**14,949**	21,030
Current income tax liabilities	**2,708**	1,963
Total current liabilities	**17,657**	22,993
Non-current liabilities		
Deferred income tax liabilities	**11,583**	12,072
Total non-current liabilities	**11,583**	12,072
Net assets	**56,796**	46,168

13 INVESTMENTS IN JOINT VENTURES *(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.

	31 December 2018 *RMB'000*	From 7 July 2017 to 31 December 2017 *RMB'000*
Revenue	**20,939**	10,320
Depreciation and amortisation	**(3,974)**	(1,914)
Other operating expenses	**(2,915)**	(1,443)
Income tax expense	**(3,416)**	(1,785)
Profit from operations	**10,634**	5,178
Other comprehensive income	**(6)**	–
Total comprehensive income	**10,628**	5,178

13 INVESTMENTS IN JOINT VENTURES *(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:

	31 December 2018 RMB'000	From 7 July 2017 to 31 December 2017 RMB'000
Net assets attributable to owners of Illustrious Success	**43,409**	34,908
Group's share in %	**50%**	50%
Group's share	**21,705**	17,454
Goodwill and exchange adjustment	**38,163**	37,097
Carrying amount	**59,868**	54,551

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' profit for the year	**–**	–
Share of the joint ventures' total comprehensive income	**–**	–
Aggregate carrying amount of the Group's investments in the joint ventures	**2,550**	–

13 INVESTMENTS IN JOINT VENTURES *(Continued)*

Reconciliation of summarised financial information *(Continued)*

As at 31 December 2018, the Group has contributed RMB2,550,000 to the Sinopharm Junyue Aerosol.

	2018 ***RMB'000***	**2017** *RMB'000*
Amount due from a joint venture (Note)	**500**	–

Note: The balance was unsecured, interest-free and repayable on demand.

14 LAND USE RIGHTS

	2018 ***RMB'000***	2017 *RMB'000*
Opening net book amount	**5,186**	5,310
Additions	**–**	–
Amortisation *(Note 7)*	**(124)**	(124)
Closing net book amount	**5,062**	5,186

	2018 ***RMB'000***	2017 *RMB'000*
Cost	**6,206**	6,206
Accumulated amortisation	**(1,144)**	(1,020)
Net book amount	**5,062**	5,186

The lease periods of land use rights are 50 years. As at 31 December 2018, the remaining lease periods of the Group's land use rights were 34 to 45 years (2017: 35 to 46 years).

As at 31 December 2018 and 2017, the Group's land use rights were pledged to secure notes payable (Note 29(b)).

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office furniture and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017						
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	(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
Year ended 31 December 2018						
Opening net book amount	56,912	22,252	13,376	3,521	176	96,237
Additions	3,448	2,353	6,265	998	1,778	14,842
Disposal	–	(46)	(31)	(780)	–	(857)
Transfer	1,172	641	–	–	(1,813)	–
Eliminated on disposal	–	23	28	702	–	753
Depreciation *(Note 7)*	(4,584)	(2,920)	(1,897)	(500)	–	(9,901)
Closing net book amount	56,948	22,303	17,741	3,941	141	101,074
At 31 December 2018						
Cost	77,091	42,139	24,400	7,236	141	151,007
Accumulated depreciation	(20,143)	(19,836)	(6,659)	(3,295)	–	(49,933)
Net book amount	56,948	22,303	17,741	3,941	141	101,074

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged in:

	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**3,271**	3,134
Administrative expenses	**6,619**	4,133
Selling expenses	**11**	14
Total	**9,901**	7,281

As at 31 December 2018, the Group's buildings with the carrying amount of RMB11,839,000 (2017: RMB12,271,000) were pledged to secure notes payable (Note 29(b)).

16 INVESTMENT PROPERTY

	2018	2017
	RMB'000	*RMB'000*
Opening balance at 1 January	**7,900**	6,400
Fair value adjustment *(Note 6)*	**3,800**	1,500
Closing balance at 31 December	**11,700**	7,900

As at 31 December 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: 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 2018 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 2018	Valuation techniques	Unobservable inputs	Amount of unobservable inputs
Investment Property	11,700,000	Direction comparison method	Market price (RMB/square meter)	18,621

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

The revaluation gain is included in 'Other gains/(loss) – 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 2017			
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	(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
Year ended 31 December 2018			
Opening net book amount	336	25	361
Additions	–	–	–
Amortisation charge *(Note 7)*	(70)	(25)	(95)
Closing net book amount	266	–	266
At 31 December 2018			
Cost	638	750	1,388
Accumulated amortisation	(372)	(750)	(1,122)
Net book amount	266	–	266

Amortisation had been charged in administrative expenses.

18 INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**24,027**	26,014
Work in progress	**134**	220
Finished goods	**19,873**	29,795
Inventories – net	**44,034**	56,029

The cost of inventories included in cost of sales during the year ended 31 December 2018 amounted to RMB285,812,000 (2017: RMB284,735,000).

During the year ended 31 December 2018, the Group did not make or reverse any provision for inventories (2017: Nil).

19 TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables, net (a)	**131,600**	105,056
Prepayments and deposits	**78,159**	71,268
Notes receivable	**500**	–
Other receivables	**11,050**	5,497
	221,309	181,821

19 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2018 *RMB'000*	2017 *RMB'000*
RMB	**126,470**	112,647
USD	**63,636**	65,366
HKD	**31,203**	3,808
	221,309	181,821

The fair values of trade and other receivables approximate to their carrying values as at the end of the reporting period.

(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:

	2018 *RMB'000*	2017 *RMB'000*
Up to 3 months	**75,528**	69,860
3 to 6 months	**40,013**	29,070
6 to 12 months	**12,532**	5,040
Over 12 months	**3,630**	1,409
	131,703	105,379
Impairment provision	**(103)**	(323)
	131,600	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 59% (2017: 62%) of the Group's revenue for the year. They accounted for 66% (2017: 74%) of the gross trade receivable balances as at 31 December 2018.

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

As at 31 December 2018, trade receivables of RMB16,069,000 (2017: RMB6,126,000) 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:

	2018	2017
	RMB'000	*RMB'000*
6 to 12 months	**12,532**	5,040
Over 12 months	**3,527**	1,086
	16,059	6,126

As of 31 December 2018, trade receivables of approximately RMB103,000 (2017: RMB323,000) 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.

(b) None of the balances in other receivables is either past due or impaired.

20 PREPAYMENTS FOR INVESTMENT

During the year ended 31 December 2017, the Group entered into a sale and purchase agreement with Perfect Century Group Limited (the "Vendor") for the acquisition of the 25% equity interest of Ever Clever which is principally engaged in heat supply business in the PRC, at the 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.

During the year ended 31 December 2017, the Group paid RMB70,000,000 for the consideration and RMB219,000 for costs related to the acquisition. On 8 January 2018, the Ever Clever Acquisition was completed. During the year ended 31 December 2018, the remaining consideration is settled. Details of the consideration shares and the convertible bonds issued are set out in Note 25 and 32 respectively. The total costs related to the Ever Clever Acquisition was approximately RMB432,000.

21 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSET AT FVTPL

A. Financial asset at FVOCI

(i) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more appropriate.

(ii) Equity investment at FVOCI

	2018 ***RMB'000***	2017 *RMB'000*
Non-current		
Unlisted equity securities		
Ordinary shares – Ever Clever	**148,660**	–

During the year ended 31 December 2018, the Ever Clever Acquisition was completed on 8 January 2018 as mentioned in Note 20. The Group designated the equity investment in Ever Clever as a financial asset at FVOCI upon initial recognition as the investment is not held for trading.

21 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSET AT FVTPL *(Continued)*

A. Financial asset at FVOCI *(Continued)*

(ii) Equity investment at FVOCI (Continued)

25% equity interest in Ever Clever was initially recognised of approximately RMB152,155,000 at 8 January 2018. The decrease in fair value of the financial asset at FVOCI of approximately RMB3,495,000 was recognised in other reserves.

Information about fair value measurement using significant unobservable inputs (Level 3):

	Valuation technique	Significant unobservable inputs	Range/ Amount	Sensitivity of fair value to the input
Unlisted equity securities – Ever Clever	Relative valuation model	Discount for lack of marketability	25%	5% increase/(decrease) in discount for lack of marketability would result in (decrease)/increase in fair value by RMB2,560,000
		EV/EBIT ratio	19.19x	5% increase/(decrease) in EV/EBIT ratio would result in increase/(decrease) in fair value by RMB4,470,000
		PE ratio	15.84x	5% increase/(decrease) in PE ratio would result in increase/(decrease) in fair value by RMB3,300,000

21 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSET AT FVTPL *(Continued)*

B. Financial asset at FVTPL

	2018	2017
	RMB'000	*RMB'000*
Profit guarantee in respect of investment in 25% equity interest of Ever Clever (the "Profit Guarantee")		
– Non-current	**2,442**	–
– Current	**6,206**	–
	8,648	–

During the year ended 31 December 2018, the Group acquired 25% equity interest of Ever Clever, which the Vendor irrevocably guaranteed the Group that, for each of the three twelve-month periods ending on 31 March 2020, the audited net profit after tax of Huailai Hengji Heat Supply Limited Company, a non wholly-owned subsidiary of Even Clever, in accordance with the HKFRS should not be less than RMB55 million for the period from 1 April 2017 to 31 March 2018, RMB65 million for the period from 1 April 2018 to 31 March 2019 and RMB75 million for the period from 1 April 2019 to 31 March 2020 (the "Guaranteed Profit"). The Profit Guarantee represented the fair value of the amount of shortfall between above respective actual profit and Guaranteed Profit to be received by the Group if the Ever Clever fails to meet the Guaranteed Profit.

Details of the Profit Guarantee were disclosed in the Company's announcement on 29 November 2017.

21 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSET AT FVTPL *(Continued)*

B. Financial asset at FVTPL *(Continued)*

The Group has engaged an independent firm of valuer to assess the fair value of the Profit Guarantee as at the end of the reporting period. The fair value of the Profit Guarantee was estimated by applying the income approach at a discount rate of 15%. In assessing the adjustments to reflect credit risk in the fair value measurement process, the Directors of the Company did not consider the credit risk to be significant as the Vendor of Ever Clever gave a share charge of its 25% equity interest in Ever Clever in favour of the Group under the Sale and Purchase Agreement.

The Profit Guarantee contracted with the Vendor is recognised as a derivative financial instrument under HKFRS 9 and is accounted for in accordance with note 2.11.A.5

Information about fair value measurement using significant unobservable inputs (Level 3):

	Valuation technique	Significant unobservable inputs	Range/ Amount	Sensitivity of fair value to the input
Profit Guarantee	Discounted cash flow method	Effective interest rate	15%	10% increase/(decrease) in effective interest rate would result in (decrease)/increase in fair value by RMB 87,000

22 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2018	2017
	RMB'000	*RMB'000*
Cash at banks and in hand	**172,637**	142,407
Less: Short-term bank deposits	**(103,099)**	(88,139)
Cash and cash equivalents	**69,538**	54,268

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

	2018	2017
	RMB'000	*RMB'000*
RMB	**113,715**	112,861
HKD	**9,667**	4,468
USD	**49,255**	25,078
	172,637	142,407

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 2018 was 2.6% (2017: 2.5%) 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 2018 the effective interest rate of pledged bank deposits was 1.41% (2017: 1.53%) 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 FVOCI		Assets at FVTPL		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 31 December								
Assets as per consolidated statement of financial position								
Trade and other receivables excluding prepayments	**143,150**	110,553	**–**	–	**–**	–	**143,150**	110,553
Financial assets at FVTPL	**–**	–	**–**	–	**8,648**	–	**8,648**	–
Financial assets at FVOCI	**–**	–	**148,660**	–	**–**	–	**148,660**	–
Cash and cash equivalents	**69,538**	54,268	**–**	–	**–**	–	**69,538**	54,268
Short-term bank deposits	**103,099**	88,139	**–**	–	**–**	–	**103,099**	88,139
Pledged bank deposits	**17,324**	23,198	**–**	–	**–**	–	**17,324**	23,198
Total	**333,111**	276,158	**148,660**	–	**8,648**	–	**490,419**	276,158

	Liabilities at amortised cost		Liabilities at FVTPL		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 31 December						
Liabilities as per consolidated statement of financial position						
Bonds	**65,202**	46,650	**–**	–	**65,202**	46,650
Note	**102,420**	–	**–**	–	**102,420**	–
Bank borrowings	**59,906**	44,602	**–**	–	**59,906**	44,602
Convertible bonds	**31,456**	–	**–**	–	**31,456**	–
Trade and other payables (excluding other taxes payable and payroll payable)	**128,772**	131,377	**–**	–	**128,772**	131,377
Financial liabilities at FVTPL	**–**	–	**2,040**	–	**2,040**	–
Loans from a third party	**–**	50,077	**–**	–	**–**	50,077
Total	**387,756**	272,706	**2,040**	–	**389,796**	272,706

25 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2018 and 2017	
	Number of shares *(thousands)*	*HKD'000*
Authorised Capital:		
Ordinary shares of HKD0.01 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 1 January 2017, 31 December 2017 and 1 January 2018	480,000,000	3,801	134,143
Alloted and issued on 29 March 2018 *(Note)*	11,800,000	100	16,000
At 31 December 2018	491,800,000	3,901	150,143

All shares issued rank pari passu against each other.

Note: Pursuant to the Sale and Purchase Agreement entered between the Group and the Vendor, 11,800,000 ordinary shares of the Company at the issue price of HKD1.60 per share were allotted and issued to the Vendor on 29 March 2018 as part of the consideration for the Ever Clever Acquisition as disclosed in Note 20. The fair value of the ordinary shares issued was determined by reference to the closing price of HKD1.61 per share quoted on the Stock Exchange at the date of completion of the Ever Clever Acquisition (i.e. 8 January 2018).

26 OTHER RESERVES

	Capital reserve *RMB'000*	Merger reserve *RMB'000*	Statutory reserves *RMB'000*	Investment revaluation reserve *RMB'000*	Exchange reserves *RMB'000*	Share option reserves *RMB'000*	Total *RMB'000*
At 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 and 1 January 2018	8,986	28,029	21,435	–	1,630	–	60,080
Profit appropriation (a)	–	–	3,893	–	–	–	3,893
Changes in fair value of financial asset at FVOCI	–	–	–	(3,495)	–	–	(3,495)
Currency translation differences	–	–	–	–	(4,818)	–	(4,818)
At 31 December 2018	8,986	28,029	25,328	(3,495)	(3,188)	–	55,660

(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.

No share option is granted during the year ended 31 December 2018.

28 DEFERRED GOVERNMENT GRANTS

	2018 *RMB'000*	2017 *RMB'000*
At 1 January	**875**	1,010
Recognised to consolidated statement of comprehensive income	**(136)**	(135)
At 31 December	**739**	875

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

29 TRADE AND OTHER PAYABLES

	2018 *RMB'000*	2017 *RMB'000*
Trade payables (a)	**30,353**	36,405
Notes payable (b)	**86,578**	82,960
Advance from customers (c)	**–**	4,599
Other taxes payable	**3,388**	6,455
Accrued expenses	**9,655**	5,157
Other payables	**4,787**	5,199
	134,761	140,775

29 TRADE AND OTHER PAYABLES *(Continued)*

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

	2018 *RMB'000*	2017 *RMB'000*
RMB	**125,756**	137,144
HKD	**9,005**	1,885
	134,761	136,176

The fair values of trade and other payables approximated to their carrying values as at the end of the reporting period.

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

	2018 *RMB'000*	2017 *RMB'000*
Up to 3 months	**28,217**	34,600
3 to 6 months	**803**	1,120
6 to 12 months	**127**	173
Over 12 months	**1,206**	512
	30,353	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 (Note 23), the land use rights (Note 14) and certain property, plant and equipment (Note 15) of the Group.

(c) Advance from customers was classified as contract liabilities under HKFRS 15 starting from 1 January 2018. As at 31 December 2018, advance from customers which was classified as contract liabilities was approximately RMB9,583,000.

30 BONDS

	2018 *RMB'000*	2017 *RMB'000*
Non-current	**15,102**	46,650
Current	**50,100**	–
	65,202	46,650

During the year ended 31 December 2017, the Company issued 2-year bonds at total par value of HKD59,000,000 with coupon rate of 6.00% 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.

During the year ended 31 December 2018, the Company placed 2-year bonds at total par value of HKD18,500,000 with coupon rate of 6.50% per annum (the "2018 Bonds"). The total net proceeds after issuance costs were RMB14,588,730 and the effective interest rate is 12.29% per annum. The 2018 Bonds is guaranteed by Mr. Yu Yuerong, a Director of the Company.

The Company may at any time before the maturity dates redeem the 2017 Bonds and 2018 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.

31 NOTE

	2018 *RMB'000*	2017 *RMB'000*
Non-current	**102,420**	–

During the year ended 31 December 2018, the Company issued 2-year note at total par value of HKD120,000,000 with coupon rate of 9.00% per annum (the "Note"). The total net proceeds after issuance costs were RMB101,397,544 and the effective interest rate is 11.03% per annum. The Note is secured and guaranteed by Mr. Yu Yuerong, a Director of the Company and is secured by a share charge over 25% equity interest in Ever Clever.

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

32. CONVERTIBLE BONDS/ FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Pursuant to the Sale and Purchase Agreement, the Company issued convertible bonds with an aggregate principal amount of RMB32,000,000 (equivalent to HKD37,760,000) (the "Convertible Bonds") to the Vendor as part of the consideration for the acquisition of 25% equity interest of the issued share capital of Ever Clever in respect of the Sale and Purchase Agreement dated 29 November 2017 entered into between Prosper One Development Limited (the "Purchaser"), a wholly-owned subsidiary of the Company and the Vendor. The Convertible Bonds is denominated in RMB, bears zero interest and will be matured on 29 March 2021. The Company shall redeem at 100% of the principal amount on the maturity date as stated in the deed constituting convertible bonds dated 29 November 2017. The Convertible Bonds holders shall have a right to convert the Convertible Bonds into ordinary shares of the Company at the conversion price of RMB1.356 per share (equivalent to HKD1.60 per share) (the "Initial Conversion Price"). The Initial Conversion Price is subject to adjustment on the occurrence of dilutive or concentration event. The effective interest rate liability component of the Convertible Bonds is 8-9% per annum.

According to the Profit Guarantee given by the Vendor in favour of the Company pursuant to the terms of the Sale and Purchase Agreement, the Convertible Bonds holders have the right to convert their Convertible Bonds into fully paid ordinary shares of the Company at any time during the conversion period.

32. CONVERTIBLE BONDS/ FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

The Convertible Bonds shall be exercised, redeemed, returned and cancelled according to the mechanism stated in the Sale and Purchase Agreement. Details of the Sale and Purchase Agreement were disclosed in the Company's announcement dated 29 November 2017.

The fair value of the liability component of the Convertible Bonds was initially recognised at approximately of RMB29,970,000 by using discounted cash flow model. The fair value estimate was based assumed discount rates (i.e. effective interest rates) of 8-9% and the Director's expectation on the amount of the Convertible Bonds to be redeemed or cancelled (if any).

The convertible option should be separated from the liability component and accounted for as a derivative liability (i.e. financial liabilities at fair value through profit or loss) with subsequent changes in fair value recognised in profit or loss. It was because the host contract (i.e. liability component) was denominated in a currency (i.e. RMB) which was not the functional currency (i.e. HKD) of the Company. Hence, this does not meet the fixed for fixed criteria. The fair values at the date of issuance and as at 31 December 2018, were assessed by an independent valuer, was calculated using the binomial options pricing model. As at 31 December 2018, there were changes in the fair value of derivative liability compared to the issuance date and the end of reporting period that recognised in profit or loss during the year ended 31 December 2018 (Note 6).

32. CONVERTIBLE BONDS/ FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

The Convertible Bonds recognised in the consolidated statement of financial position are calculated as follows:

	Liability component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
At 1 January 2018	–	–	–
Issuance of the Convertible Bonds during the year	29,970	1,510	31,480
Interest charge *(Note 9)*	1,486	–	1,486
Change in fair value *(Note 6)*	–	530	530
At 31 December 2018	31,456	2,040	33,496

Information about fair value measurement using significant unobservable inputs (Level 3):

	Valuation technique	Significant of unobservable inputs	Range/ Amount	Sensitivity of fair value to the input
Derivative component in the Convertible Bonds	Binomial options pricing model	Expected volatility	35%-36%	10% increase/(decrease) in expected volatility would result in increase/ (decrease) in fair value by RMB 310,000
		Dividend yield	0%	

33 BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Current	**59,906**	44,602

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 2018 was 3.39% (2017: 3.82%).

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

	2018 RMB'000	2017 RMB'000
USD	**54,906**	32,602
RMB	**5,000**	12,000
	59,906	44,602

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.

34 LOANS FROM A THIRD PARTY

During the year ended 31 December 2017, 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 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.

During the year ended 31 December 2018, the Company repaid all the aforesaid loans and there are no loans from the third party outstanding as at 31 December 2018.

35 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2018 (2017: Nil).

36 CASH FLOW INFORMATION

(i) Reconciliation of profit before income tax to cash generated from operations

	2018 *RMB'000*	2017 *RMB'000*
Profit before income tax	**28,683**	26,732
Adjustments for:		
Interest income *(Note 9)*	**(2,369)**	(2,027)
Interest expense *(Note 9)*	**18,950**	5,018
Depreciation of property, plant and equipment *(Note 15)*	**9,901**	7,281
Fair value gain on investment property *(Note 16)*	**(3,800)**	(1,500)
Change in fair value of financial liabilities at FVTPL	**530**	–
Change in fair value of financial asset at FVTPL	**(791)**	–
Share of results of a joint venture *(Note 13)*	**(5,126)**	(2,054)
Amortisation of land use rights and intangible assets *(Note 14 and 17)*	**219**	340
Impairment charge for bad debt	**40**	32
Deferred government grants income *(Note 28)*	**(136)**	(135)
Losses on disposals of property, plant and equipment	**57**	–
Changes in working capital:		
Increase in trade and other receivables	**(36,770)**	(27,998)
Decrease/(increase) in inventories	**11,995**	(18,306)
Increase in amount due from joint ventures	**(500)**	–
(Decrease)/increase in trade and other payables and contract liabilities	**(4,549)**	23,632
Cash generated from operations	**16,334**	11,015

36 CASH FLOW INFORMATION *(Continued)*

(ii) Reconciliation of liabilities arising from financing activities

	Bank borrowings (Note 33) *RMB'000*	Loans from a third party (Note 34) *RMB'000*	Notes payable (Note 29) *RMB'000*	Bonds (Note 30) *RMB'000*	Note (Note 31) *RMB'000*	Total *RMB'000*
At 1 January 2018	44,602	50,077	82,960	46,650	–	224,289
Changes from cash flows:						
Proceeds from bank borrowings	57,998	–	–	–	–	57,998
Repayment of bank borrowings	(45,106)	–	–	–	–	(45,106)
Repayment of loans from a third party	–	(49,626)	–	–	–	(49,626)
Proceeds from notes payable	–	–	120,971	–	–	120,971
Repayment of notes payable	–	–	(117,353)	–	–	(117,353)
Proceeds from issue of bonds, net of issuance costs	–	–	–	14,064	–	14,064
Proceeds from issue of note, net of issuance costs	–	–	–	–	97,749	97,749
Total changes from financing cash flows:	12,892	(49,626)	3,618	14,064	97,749	78,697
Exchange adjustments	2,412	(451)	–	2,835	3,685	8,481
Interest expenses (non-cash)	–	–	–	1,653	986	2,639
Total other changes	2,412	(451)	–	4,488	4,671	11,120
At 31 December 2018	59,906	–	86,578	65,202	102,420	314,106

36 CASH FLOW INFORMATION *(Continued)*

(ii) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank borrowings (Note 33) *RMB'000*	Loans from a third party (Note 34) *RMB'000*	Notes payable (Note 29) *RMB'000*	Bonds (Note 30) *RMB'000*	Total *RMB'000*
At 1 January 2017	2,191	–	62,724	–	64,915
Changes from cash flows:					
Proceeds from bank borrowings	49,602	–	–	–	49,602
Repayment of bank borrowings	(7,191)	–	–	–	(7,191)
Proceeds from loans from a third party	–	50,077	–	–	50,077
Proceeds from notes payable	–	–	162,413	–	162,413
Repayment of notes payable	–	–	(142,177)	–	(142,177)
Proceeds from issue of bonds, net of issuance costs	–	–	–	44,386	44,386
Total changes from financing cash flows:	42,411	50,077	20,236	44,386	157,110
Exchange adjustments	–	–	–	(84)	(84)
Interest expenses (non-cash)	–	–	–	2,348	2,348
Total other changes	–	–	–	2,264	2,264
At 31 December 2017	44,602	50,077	82,960	46,650	224,289

(iii) Major non-cash transactions

During the year ended 31 December 2018, 11,800,000 consideration shares with the amount of RMB16,100,000 were allotted and issued (Note 25), and the Convertible Bonds (Note 32) were issued, as part of the consideration of the Ever Clever Acquisition.

37 CONTINGENT LIABILITIES

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

38 COMMITMENTS

(a) Capital commitments

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

	2018 *RMB'000*	2017 *RMB'000*
Property, plant and equipment	**867**	1,511
Equity interest investment – Ever Clever Acquisition	**–**	42,000
Equity interest investment – others	**48,450**	51,000
Total	**49,317**	94,511

(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:

	2018 *RMB'000*	2017 *RMB'000*
Not later than one year	**3,278**	1,487
Later than one year and not later than five years	**6,004**	6,412
	9,282	7,899

38 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:

	2018	2017
	RMB'000	*RMB'000*
Not later than one year	**354**	344
Later than one year and not later than five years	**1,170**	1,376
	1,524	1,720

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	(a)	15,295	28,597
Investment in a joint venture		59,868	54,551
Property, plant and equipment		295	627
		75,458	83,775
Current assets			
Trade and other receivables		7,752	2,090
Amounts due from subsidiaries		290,523	189,935
Short-term bank deposits		10,999	–
Cash and cash equivalents		13,462	11,798
		322,736	203,823
Total assets		398,194	287,598
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		3,901	3,801
Share premium		165,873	149,873
Other reserves	(b)	15,845	11,775
Accumulated losses	(c)	(60,823)	(17,417)
Total equity		124,796	148,032
LIABILITIES			
Non-current liabilities			
Bonds		15,102	46,650
Convertible bonds		31,456	–
Note		102,420	–
		148,978	46,650
Current liabilities			
Bonds		50,100	–
Trade and other payables		17,374	10,237
Financial liabilities at FVTPL		2,040	–
Bank borrowings		54,906	32,602
Loans from a third party		–	50,077
		124,420	92,916
Total liabilities		273,398	139,566
Total equity and liabilities		398,194	287,598

The statement of financial position of the Company was approved by the Board of Directors on 28 March 2019 and was signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY *(Continued)*

(a) The following is a list of the principal subsidiaries at 31 December 2018:

Name	Form of business structure	Place and date of incorporation/ establishment	Issued share capital/paid-up registered capital	Equity interest held	Principal activities and place of operation
Directly held:					
Ludao BVI	Limited liability company	Incorporated in BVI on 18 December 2007	111 ordinary shares of USD111	100%	Investment holding, BVI
Indirectly held:					
Ludao PRC	Wholly-foreign owned enterprise	Established in the PRC on 23 August 2002	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 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 and 1 January 2018	–	11,775	11,775
Currency translation differences	–	4,070	4,070
At 31 December 2018	–	15,845	15,845

(c) Accumulated losses

	2018 ***RMB'000***	2017 *RMB'000*
Balance at 1 January	**(17,417)**	(27,356)
Losses for the year	**(43,406)**	(10,989)
Transfer from share option reserves on lapse of share options	**–**	20,928
Balance at 31 December	**(60,823)**	(17,417)

40 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		Total	
	2018 *RMB'000*	2017 *RMB'000*	**2018** *RMB'000*	2017 *RMB'000*	**2018** *RMB'000*	2017 *RMB'000*	**2018** *RMB'000*	2017 *RMB'000*
Executive Directors								
Mr. Yu Yuerong								
– also the chief executive	**–**	–	**1,014**	836	**15**	15	**1,029**	851
Mr. Tan Xiangdong *(a)*	**–**	–	**1,014**	612	**15**	10	**1,029**	622
Mr. Chen Baoyuan	**–**	–	**193**	157	**9**	7	**202**	164
Ms. Pan Yili	**–**	–	**117**	100	**10**	5	**127**	105
Ms. Wang Jinfei *(b)*	**–**	–	**–**	21	**–**	1	**–**	22
Mr. Wang Xiaobing	**–**	–	**242**	220	**14**	14	**256**	234
	–	–	**2,580**	1,946	**63**	52	**2,643**	1,998
Non-executive Director								
Mr. Tian Tingshan *(c)*	**203**	90	**–**	–	**–**	–	**203**	90
Independent non-executive Directors								
Ms. Cho Mei Ting *(d)*	**–**	76	**–**	–	**–**	–	**–**	76
Mr. Chan Yin Tsung	**152**	150	**–**	–	**–**	–	**152**	150
Mr. Ruan Lianfa	**142**	142	**–**	–	**–**	–	**142**	142
Ms. Yau Kit Kuen Jean *(e)*	**152**	73	**–**	–	**–**	–	**152**	73
	446	441	**–**	–	**–**	–	**446**	441

(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 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.

40 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 (2017: 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.

41 SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Group after 31 December 2018 till the date of this annual report.

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				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**405,047**	395,741	274,232	266,010	253,795
Cost of sales	**(309,907)**	(307,346)	(196,990)	(200,275)	(189,094)
Gross profit	**95,140**	88,395	77,242	65,735	64,701
Other income and other (loss)/gains – net	**14,098**	868	4,408	5,209	3,885
Selling expenses	**(22,744)**	(18,608)	(21,612)	(18,543)	(16,109)
Administrative expenses	**(46,356)**	(41,196)	(35,817)	(46,391)	(27,568)
Finance costs – net	**(16,581)**	(4,781)	3,557	1,806	(747)
Share of results of a joint venture	**5,126**	2,054	–	–	–
PROFIT BEFORE INCOME TAX	**28,683**	26,732	27,778	7,816	24,162
Income tax expense	**(5,444)**	(4,882)	(4,496)	(4,249)	(3,654)
PROFIT FOR THE YEAR	**23,239**	21,850	23,282	3,567	20,508

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**796,210**	640,670	438,414	412,621	342,521
TOTAL LIABILITIES	**408,264**	283,750	102,761	100,510	139,680
	387,946	356,920	335,653	312,111	202,841

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2017 and 2018 and the consolidated assets and liabilities of the Group as at 31 December 2017 and 2018 are set out on pages 77 to 79 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.