ANNUAL REPORT

2019

A BETTER WORLD FOR EVERYONE

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)

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

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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 2019 (the "Reporting Period").

During the Reporting Period, the global economy declined obviously, the global international trade showed negative growth, and the Sino-US trade conflict shifted from an escalating trend to an easing trend. Faced with the complex situation of obviously rising risks and challenges at home and abroad, the Group has been under unprecedented pressure in business. Nevertheless, following the development concept of "Innovation, Green and Harmony", the Group has adjusted its strategy and made active response to expand the domestic market on the basis of strengthening the cooperation with strategic customers. The CMS business and OBM business of the Group maintained a growth momentum and recorded an increase of 1.4% and 6.8% respectively.

During the Reporting Period, Ludao PRC, a subsidiary of the Group, was jointly recognized as a provincial-level enterprise technology center by Economy and Information Technology Department of Zhejiang, Zhejiang Provincial Department of Finance and other departments, and has also passed the China high-tech enterprise certification review, which laid a solid foundation for the development of the Group and strengthened its competitive edge. In the future, the Group may invest resources in developing projects for the research and development, manufacture and sale of medical and edible aerosol products to capture market opportunities and in the interests of the Company and its shareholders as a whole.

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, 8 May 2020

Management Discussion and Analysis

BUSINESS REVIEW

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

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

During the Reporting Period, the global economy declined obviously, the global international trade showed negative growth, and the Sino-US trade conflict shifted from an escalating trend to an easing trend. At the same time, China continued to improve the business environment, and has implemented large-scale tax cuts and fee reduction policies, adding new impetus to economic growth. Nevertheless, it was not easy for the Group in 2019. Through years of steady development and continuous innovation capability, the Group has adjusted its strategy and made active response on the basis of strengthening the strategic customer cooperation relationship. The CMS business and OBM business of the Group maintained a growth momentum and recorded an increase of 1.4% and 6.8% respectively.

In addition, the Group's investment in the clean energy and heating business newly introduced in 2017 to the Group, and the Board of Directors and the management of the Group will continually follow up and timely consider the development of such investment project. Meanwhile, the Group will also pay attention to other potential investment opportunities in the market so as to enhance the competitiveness and synergy of the Group.

For the Reporting Period, the revenue and net profit of the Group were approximately RMB412.6 million and RMB23.8 million respectively, representing an increase of approximately 1.9% and 2.2% respectively over 2018. Basic earnings per share was approximately RMB5 cents (2018: RMB5 cents).

Despite the rise in revenue, the Group's total comprehensive expense for the year attributable to the owners of the Company was approximately RMB60.8 million for the Reporting Period, compared to the total comprehensive income of approximately RMB14.9 million for the prior year. The significant increase is primarily attributable to the decrease in fair value of equity instruments at fair value through other comprehensive income because the business operations of HGRL have been temporarily taken over by the Huailai county government for the reason of alleged non-compliance with certain administrative measures for public utility franchise, which is non-cash in nature and has no adverse impact on the business and operation of the Group. The Board considers that overall operational and financial position of the Group as whole still remain good.

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB372.0 million (2018: RMB367.0 million) representing an increase of approximately 1.4% as compared with last year.

During the Reporting Period, the global economy declined obviously, the global international trade showed negative growth, and the Sino-US trade conflict shifted from an escalating trend to an easing trend. Faced with the complex situation of obviously rising risks and challenges at home and abroad, the Group has been under unprecedented pressure in business. Nevertheless, through years of steady development and continuous innovation capability, the Group has adjusted its strategy and made active response on the basis of strengthening the strategic customer cooperation relationship. The CMS business of the Company has slightly increment as compared with last year. In 2020, due to the outbreak of coronavirus pneumonia in 2019 and its continuous large-scale spread around the world, international trade will be affected unprecedentedly. The epidemic situation is a challenge as well as an opportunity. The Group will pay close attention to the development of the epidemic situation, actively assume the corporate social responsibility, increase the production of epidemic prevention products (such as disinfection alcohol and water-free hand sanitizer), and contribute the corporate strength to the prevention and control of the epidemic. At the same time, the Group will monitor the development of the epidemic in real time, strengthen cooperation with customers, and actively deal with and resolve the adverse effects of the epidemic, so as to continue to consolidate and strengthen the CMS business of the Group.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB40.6 million (2018: RMB38.0 million), representing an increase of approximately 6.8% as compared with last year.

Although China's GDP growth rate fell from 6.6% in 2018 to 6.1% in 2019 with great pressure of the economic downturn, China continued to improve the business environment and has implemented large-scale tax cuts and fee reduction policies, adding new impetus to economic growth. In the coming 2020, despite the adverse impact of the epidemic on China's economy, China has controlled the spread of the epidemic in a timely manner, which has basically been controlled. The Group will study consumption trends and consumer preferences, and conduct research and development of high-quality product in line with market demand in order to continuously cater to the market demand and further enhance the Group's OBM business.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB299.1 million (2018: RMB309.9 million), representing a decrease of approximately 3.5% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB113.5 million (2018: RMB95.1 million), representing an increase of approximately 19.3% as compared to that of the prior year. The gross profit margin was approximately 27.5% (2018: 23.5%), such increase of approximately 4% was primarily due to effective cost control on production, changes of products structure as compared to that of the prior year and benefit from the tax reduction policy in PRC.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB23.8 million (2018: RMB23.2 million), representing an increase of approximately 2.2% when compared to the prior year. The net profit margin of the Group remained steady at 5.8% in 2019 as compared with 5.7% in 2018. Such result was primarily due to the continuing cost control of the Group.

Other comprehensive expense for the year

The Group's other comprehensive expense for the Reporting Period was approximately RMB84.6 million (2018: RMB8.3 million), representing an increase of approximately 919.3% when compared to the prior year. The increase was mainly attributable to the decrease in fair value of equity instruments at fair value through other comprehensive income.

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 RMB25.0 million (2018: RMB22.7 million), representing an increase of approximately 10.0% as compared to that of the prior year. The increase was primarily due to the increase in staff salaries and bonus and other expenses 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 RMB47.0 million (2018: RMB46.4 million), representing an increase of approximately 1.4% as compared to that of the prior year. The increase was primarily due to the increase in depreciation and amortisation, staff salaries and research and development costs.

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB20.1 million (2018: net finance cost RMB16.6 million), representing an increase of approximately RMB3.5 million as compared to that of the prior year. The increase was primarily due to increase of interest expense from bank borrowings and note instruments.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB7.6 million, representing an increase of approximately RMB2.1 million as compared with RMB5.4 million in 2018. Effective income tax rate for the current period was approximately 24.2%, which was higher as compared with approximately 19.0% over 2018. The higher effective income tax rate was primarily due to the increase in expenses not deductible for tax purpose.

Management Discussion and Analysis

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Trade Receivables

As at 31 December 2019, trade receivables of approximately RMB36.7 million were past due, representing an increase of approximately 127.1% as compared to the amount of RMB16.1 million as at 31 December 2018. The amount of the impairment provision was approximately RMB1,272,000 as at 31 December 2019 (2018: RMB103,000).

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2019 (2018: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the total assets of the Group amounted to approximately RMB746.2 million (2018: RMB796.2 million), and net current assets of approximately RMB40.8 million (2018: RMB204.4 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 102%, which was higher than that of approximately 89% over 2018. The increase was primarily due to the increase of bank borrowings and decrease of equity during the year.

BORROWINGS

As at 31 December 2019, bank borrowings of the Group amounted to approximately RMB93.3 million (2018: RMB59.9 million) with full maturity until 2020.

CAPITAL STRUCTURE

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

CONTRACTUAL OBLIGATIONS

The Group leases certain of its office premises under non-cancellable operating lease agreements. As at 31 December 2019, the Group's operating lease commitment amounted to approximately Nil (2018: RMB9.3 million). As at 31 December 2019, the Group had capital commitments of approximately RMB132.5 million in respect of equity interest investments and approximately RMB0.2 million in respect of property, plant and equipment (2018: RMB48.5 million and RMB0.9 million respectively). The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of approximately RMB0.4 million within one year (2018: RMB0.3 million) and approximately RMB0.8 million later than one year and no later than five years (2018: RMB1.2 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

EXCHANGE RATE EXPOSURE

During the Reporting Period, the Group mainly operated in the PRC with most transactions settled in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than RMB, the majority of our assets and liabilities were denominated in RMB. We currently do not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

EMPLOYEES AND EMOLUMENTS POLICIES

As at 31 December 2019, the Group had employed a total of 469 employees (2018: 465). 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 held the following significant investment which accounted for over 5% of the Company's total assets.

Unlisted investment

Name of investee company	Nature of investment	31 December 2019 Proportion of share capital owned	Cost *RMB'000*	Fair value *RMB'000*	Approximately % of total assets of the Group (by fair value)	31 December 2018 Proportion of share capital owned	Cost *RMB'000*	Fair value *RMB'000*	Approximately % of total assets of the Group (by fair value)
Ever Clever Group Limited	Financial assets at fair value through other comprehensive income	25%	152,155	66,931	8.97%	25%	152,155	148,660	18.67%

A brief description of the business, financial performance and prospect of the unlisted securities investment is set out as follows:

Ever Clever Group Limited

Ever Clever Group Limited (the "Ever Clever") is a limited liability company incorporated in the British Virgin Islands. It is an investment holding company, whose major asset is the indirect shareholding on 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company*) (the "HGRL"). HGRL is a limited liability company incorporated in the PRC with a paid up registered capital of RMB40,404,000. Ever Clever, together with its subsidiaries (the "EC Group"), is principally engaged in heat supply business in Huailai County, Hebei Province, PRC. HGRL generates revenue from two sources which are (i) provision of centralized heat supply services; and (ii) installation of connectors for transmitting its heat supply from its plant to end users.

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. 25% equity interest in Ever Clever was initially recognised of approximately RMB152,155,000 at 8 January 2018. No dividend income was received from Ever Clever for the Reporting Period. The decrease in fair value of the financial asset at FVOCI of approximately RMB81,729,000 (2018: RMB3,495,000) was recognised in other reserves. There was a significant decrease in fair value because the business operations of HGRL have been temporarily taken over by the Huailai county government for the reason of alleged non-compliance with certain administrative measures for public utility franchise.

Up to the date of this report, Perfect Century Group Limited (the "EC Vendor") was still unable to provide the relevant audited financial statements of HGRL in accordance with the sale and purchase agreement dated 29 November 2017. The Board would also seek legal advice from the PRC legal advisers to take any legal action against the EC Vendor and/or HGRL directly in the PRC for the provision of the audited financial statements of HGRL for the year ended 31 March 2018 and 31 March 2019.

The Group will closely monitor the performance of its investment and taking and will take necessary actions to protect the Company's interest in Ever Clever.

During the Reporting Period, the Group invested approximately RMB4.5 million, RMB67.5 million, RMB2.0 million, and nil in investment in a joint venture, investment in an associate, property, plant and equipment and financial assets at fair value through other comprehensive income respectively (2018: RMB2.6 million, nil, RMB14.8 million and RMB42.3 million respectively).

Other than the above, the Group did not have any significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

During the year ended 31 December 2019, the net proceeds from the initial public offering had been applied as follows:

	Actual net proceeds	Amount utilised up to 31 December 2019	Balance unutilised balance as at 31 December 2019
	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	6	1
To fund the working capital requirement	6	6	–
Total	59	58	1

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the Reporting Period, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

OTHER INFORMATION

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

On 4 July 2017, the Company has entered into an agreement (the "Illustrious Agreement") with 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 (together with its subsidiaries, the "Target Group") at the consideration of RMB52,000,000 (equivalent to approximately HKD59,898,860). The acquisition was completed on 7 July 2017.

Pursuant to the Illustrious Agreement, Wealth Linkage, the vendor, undertakes to the Company that the Target Group shall achieve the audited net profit after tax on a consolidated basis of (i) RMB10,000,000 for the year ended 31 December 2017 (the "2017 Profit Guarantee") and (ii) RMB12,000,000 for the year ended 31 December 2018 (the "2018 Profit Guarantee") compiled by an accounting firm acceptable to the Company.

The 2017 Profit Guarantee had been fulfilled. Based on the audited net profit after tax on a consolidated basis for the year ended 31 December 2018 of the Target Group was approximately RMB10,634,000 according to the its consolidated financial statements. The Directors of the Company are of the opinion that Wealth Linkage was unable to meet the requirement of Profit Guarantee pursuant to the Illustrious Agreement and the relevant shortfall of the 2018 Profit Guarantee was approximately RMB1,366,000. Details of 2018 Profit Guarantee are set out in note 6 to the consolidated financial statements of this report.

Pursuant to the Illustrious 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 Illustrious 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 Illustrious Agreement.

The Company, Wealth Linkage and the Guarantors have agreed that the amount of the monetary compensation payable by Wealth Linkage to the Company as a result of the shortfall of the 2018 Profit Guarantee in the amount of RMB5,919,000 shall be paid in two equal instalments in December 2019 and December 2020. In December 2019, the first instalment in the amount of RMB2,960,000 was duly paid by Wealth Linkage to the Company. In March 2020, the second installment in the amount of RMB2,959,000 was early settled by Wealth Linkage to the Company.

Please refer to the announcements of the Company dated 4 July 2017, 25 October 2019 and 17 January 2020 for further details in respect of the acquisition and previous updates of profit guarantee.

(ii) Update on Profit Guarantee in respect of the acquisition of 25% Equity Interest of Ever Clever Group

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 Group Limited (together with its subsidiaries, the "EC Group"). Further reference is also made to the announcements of the Company dated 23 August 2018, 4 September 2018, 25 October 2019 and 17 January 2020 in relation to the update on the profit guarantee of such acquisition.

The Company has made attempts to communicate and enquire with the relevant individuals from the Vendor and HGRL to request for the audited financial statements of HGRL on several occasions from time to time in 2019 but such attempts did not come to any fruitful results. There has been no material development since the publication of the announcement dated 17 January 2020.

As HGRL, the principal operating group company of the EC Group, is a company established in the PRC, the Board is advised to take a more comprehensive view of the merits of making a claim against the Vendor and/or HGRL in each different relevant jurisdiction. Accordingly, the Board would also seek legal advice from the PRC legal advisers to take any legal action against the Vendor and/or HGRL directly in the PRC for the provision of the audited financial statements of HGRL for the year ended 31 March 2018 and 31 March 2019.

As disclosed in the preliminary results announcement of the Company dated 27 March 2020, the Board expected to obtain legal advice from the PRC legal advisers by the end of April 2020 subject to the development of the COVID-19 epidemic. Although the COVID-19 epidemic shows sign of slowing down, business activities, including those of law firms, and court services in the PRC remain affected as at the date of this report. The Company still had difficulties in getting in touch with the PRC legal advisers to get proper advice. Subject to the development of the COVID-19 epidemic, the Board expects to obtain legal advice from the PRC legal advisers by the end of June 2020, and subject to the PRC legal advice, take the best course of action against the Vendor and/or HGRL in the most appropriate jurisdiction by the end of July 2020.

FUND RAISING ACTIVITIES

The Company has not conducted any fund raising activity for the 12 months immediately before 31 December 2019 and the date of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company planned to continue upgrading the existing production line in the future for the sake of improving the automatic level and production quality. In addition, the Group will continue to invest and develop projects for the research and development, manufacture and sale of medical and edible aerosol products through its joint venture and associate entity in the PRC. In addition, the Group will also pay attention to other investment opportunities in the market.

PROSPECTS

In 2020, due to the outbreak of coronavirus pneumonia epidemic in 2019 and its continuous large-scale spread around the world, international trade will be affected unprecedentedly. The epidemic is a challenge as well as an opportunity. The Group will pay close attention to the development of the epidemic, actively assume the corporate social responsibility, increase the production of epidemic prevention products (such as disinfection alcohol and water-free hand sanitizer), and contribute the corporate strength to the prevention and control of the epidemic. At the same time, the Group will monitor the development of the epidemic in real time, strengthen cooperation with customers, and actively deal with and resolve the adverse effects of the epidemic, so as to continue to consolidate and strengthen the CMS business of the Group. Also, despite the adverse impact of the epidemic on China's economy, China has controlled the spread of the epidemic in a timely manner, which has basically been controlled. The Group will study the consumption trends and consumer preferences, and conduct research and development of high-quality products in line with market demands in order to continuously cater to the market demands and further enhance the Group's OBM business. The Board of Directors and the management of the Group will closely monitor changes in the international situation and adjust their strategies in a timely manner in order to achieve better results.

Corporate Governance Report

The Board is pleased to present this corporate governance report (the "Corporate Governance Report") for the year ended 31 December 2019.

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, A.6.7 and E.1.2 which are explained in relevant paragraphs in this report.

THE BOARD

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

Roles and Responsibilities of Directors

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

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

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

Board Composition

The Board currently comprises of five executive Directors, one non-executive Director and three independent non-executive Directors. The list of Directors and their biographies are set out under the section of “Corporate Information” and “Biographies of Directors and Senior Management” on page 31 and page 35 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 2019, the Board comprises three independent non-executive Directors which is in compliance with Rule 3.10(1) of the Listing Rules that every board of directors of a listed issuer must include at least three independent non-executive Directors and representing more than one-third of the board, which is in compliance with Rule 3.10A of the Listing Rules. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise. The independent non-executive Directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business which is in compliance with Rule 3.10(2) of the Listing Rules. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought to the Board’s deliberations and that such views and judgement carry weight in the Board’s decision making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements.

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

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

Corporate Governance Report

Functions and Duties of the Board

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

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

(ii) Deciding business plans and investment plans;

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

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

(v) Determining the policies for corporate governance practices.

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

Appointment, Re-election and Removal of Directors

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

In accordance with the Articles, Mr. Yu Yuerong, Ms. Pan Yili and Mr. Wang Xiaobing 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 DIRECTOR 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. Each of the Company's non-executive Director and independent non-executive Directors 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 2019. 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 are required to receive 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 basis 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 2019, 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 courses, meetings and/or reading reference materials on the topics related to update corporate governance and regulations and updates of accounting standards.

CORPORATE GOVERNANCE FUNCTIONS

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

BOARD DIVERSITY POLICY

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

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

Board Meetings

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

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

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

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

The Company established the Audit Committee on 16 September 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 14 to the Listing Rules.

The primary duties of the Audit Committee are, among other things, to make recommendations to the Board on the appointment, re-appointment and removal of the external independent auditor, and any questions of its resignation or dismissal. It is also responsible for reviewing Company's financial information and overseeing of the Company's financial reporting system, risk management and internal control procedures.

The Audit Committee currently comprises of three independent non-executive Directors, namely Mr. Chan Yin Tsung (being the chairman of the Audit Committee), Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean. In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee possesses the appropriate professional and accounting qualifications.

The terms of reference setting out the Audit 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 2019 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 2019 and 2018 are set out in note 38 to the consolidated financial statements.

Pursuant to CG Code provision B.1.5, the remuneration of the members of the senior management (other than Directors) whose particulars are contained in the section headed "Biographies of Directors and Senior Management" in this annual report for the year ended 31 December 2019 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.

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)*	5/5	N/A	2/2	2/2	1/1
Mr. Tan Xiangdong	5/5	N/A	N/A	N/A	1/1
Mr. Chen Baoyuan	5/5	N/A	N/A	N/A	1/1
Ms. Pan Yili	5/5	N/A	N/A	N/A	1/1
Mr. Wang Xiaobing	5/5	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Tian Tingshan	5/5	N/A	N/A	N/A	0/1
Independent Non-Executive Directors					
Mr. Chan Yin Tsung *(Note 2)*	5/5	2/2	2/2	2/2	0/1
Mr. Ruan Lianfa	5/5	2/2	2/2	2/2	0/1
Ms. Yau Kit Kuen Jean *(Note 3)*	5/5	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

Pursuant to Code Provision A.6.7 of the CG Code, independent non-executive directors and non-executive directors, as equal board members, should attend general meeting of the Company. During the year, Mr. Tian Tingshan, Mr. Chan Yin Tsung and Mr. Ruan Lianfa were unable to attend the annual general meeting held on 23 May 2019 as they had other business engagements.

In respect of Code Provision E.1.2 of the CG Code, Mr. Chan Yin Tsung, the chairman of the Audit Committee and Remuneration Committee was unable to attend the annual general meeting of the Company held on 23 May 2019 due to other business engagement. Ms. Yau Kit Kuen Jean, a member of the Audit Committee and Remuneration Committee, however, attended such annual general meeting and made herself available to answer questions to ensure effective communication with the shareholders of the Company.

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 2019.

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.

The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going-concern.

EXTERNAL INDEPENDENT AUDITOR'S REMUNERATION

During the year ended 31 December 2019, 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.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by BDO Limited, who were appointed as the Company's auditor on 1 August 2018 to fill the casual vacancy arising from the resignation of PricewaterhouseCoopers on 1 August 2018. Save as disclosed above, there has been no other change of auditors for the preceding three years.

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.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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's risk management and internal control 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. We have adopted a bottom-up approach for identification, assessment and mitigation of risk at all business unit levels and across functional areas.

MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The key elements of the Group's risk management and internal control systems include the establishment of a risk register to keep track of and document identified risks, the assessment and evaluation of risks, the development and continuous updating of key internal control procedures, and the ongoing testing of internal control procedures to ensure their effectiveness.

An ongoing risk assessment approach is adopted by the Group for identifying and assessing the key inherent risks that affect the achievements of its objectives. A risk matrix is adopted to determine risk rating (H = high risk, M = medium risk, L = low risk) after evaluation of the risk by the likelihood and the impact of the risk event. The risk ratings reflect the level of attention of the management and the effort of risk treatment required.

PROCESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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.

During the process of risk assessment, each of the risk owners of departments is required to capture and identify the key inherent risks that affect the achievement of its objectives. Each inherent risk is evaluated according to the risk matrix. After taking into consideration of the effectiveness of the risk response, such as control measures in place to mitigate the risk, the residual risk of each key inherent risk is evaluated again. The risk rating is determined by considering the inherent risk and control risk. The risk register with the key risk responses and key risk ratings is reported to the Board and the Audit Committee.

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 2019.

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 2019. 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.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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.

To be certain that all the staff members in the Group are aware of the inside information handling, the Group's disclosure policy sets out guidance and procedures to ensure that the inside information of the Group is disseminated to the public completely, accurately and timely. Besides, the Board is responsible to approve the dissemination of the information. The Group also has reasonable measures and procedures regarding keeping the sensitive information confidential and ensuring the confidentiality terms are in place in the significant agreements. Other procedures including sending blackout period and securities dealing restrictions notification to the relevant Directors and employees timely, disseminating information to specified persons on a need-to-know basis have also been implemented by the Group against possible mishandling of inside information within the Group.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

- maintained frequent contacts with shareholders and investors through various channels such as meetings, telephone and emails;
- regularly updated the Company's news and developments through the investor relations section of the Company's website;

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

Shareholders may send their enquiries and concerns in writing to the Board or the Company Secretary by addressing them to the Company at our principal place of business in Hong Kong or by email through the Company's website.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yu Yuerong (虞岳榮), aged 52, 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 23 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 65, 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).

EXECUTIVE DIRECTORS *(Continued)*

Mr. Chen Baoyuan (陳寶元), aged 47, 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 24 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 44, was appointed as an executive Director of the Company on 16 September 2013. Ms. Pan has over 13 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 45, 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 62, 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 40, 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 66, 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 51, was appointed as an independent non-executive Director of the Company on 7 July 2017. She is also the chairlady of the Nomination Committee and a member of Audit Committee and Remuneration Committee. Ms. Yau 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 37, 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 13 years of experience in accounting and auditing.

Mr. Wang Yongfei（王永飛）, aged 44, 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 23 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 2019 to 31 December 2019.

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.

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

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 importance 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 2019, those important ESG areas to the Group were discussed in this 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.

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 decrease in air pollutant emission in 2019 was mainly attributable to the decrease in diesel consumption by the factory during the year. 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	2019 Total	2018 Total
Nitrogen oxides (NO_x)	kg	518.68	0.32	3.06	**522.06**	1,020.92
Sulfur dioxide (SO_2)	kg	13.35	0.42	0.23	**14.00**	25.70
Particulate matter (PM)	kg	65.09	0.06	0.07	**65.22**	126.38

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 acquired a group company which was 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. 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 increase in GHG emission in 2019 was mainly attributable to the increase in electricity demand for 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	2019 Total	2018 Total
Scope 1[2]	tonnes of CO_2-e	151.65	1.76	13.02	**166.43**	197.66
Scope 2[3]	tonnes of CO_2-e	2,370.66	3,754.00	8.19	**6,132.85**	5,615.40
Total GHG emission	tonnes of CO_2-e	2,522.31	3,755.76	21.21	**6,299.28**	5,813.06
GHG emission intensity	Aerosol: tonnes of CO_2-e/ tonnes of production	0.045				Aerosol: 0.047
	Clean energy: tonnes of CO_2-e/m^2		0.011			Clean energy: 0.010
	Investment: tonnes of CO_2-e/m^2			0.010		Investment: 0.009

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.

The hazardous wastes produced during our production process are separately stored with label and handled 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 decrease in hazardous waste amount in 2019 was mainly attributable to the effective implementation of waste-reduction strategies during the year.

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 increase in non-hazardous wastes amount in 2019 was mainly attributable to the increase in manufacture and sale of aerosol and related products during the year.

The wastes generated by the Group in 2019 are as follows:

Wastes disposal	Unit	Aerosol business	Clean energy business	Investment Holding Business	2019 Total	2018 Total
Hazardous waste	tonnes	8.92	–	–	**8.92**	10.81
Hazardous waste intensity	tonnes/tonnes of production	0.0002	–	–		Aerosol: 0.0002
Non-hazardous waste	tonnes	159.49	–	–	**159.49**	135.00
Non-hazardous waste intensity	tonnes/tonnes of production	0.0029	–	–		Aerosol: 0.0002

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 12,000m^3 (2018: 7,700m^3) of wastewater was treated and discharged, representing an increase of approximately 56% (2018: 3%) as compared with that of in previous period. 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 increase in total energy consumption was mainly attributable to the increase in electricity demand for the manufacture and sale of aerosol products and related products during the year.

The energy consumption of the Group in 2019 is summarised as follows:

Energy consumption	Unit	Aerosol business	Clean energy business	Investment Holding Business	2019 Total	2018 Total
Purchased electricity	MWh	2,920.16	3,754.00	12.17	**6,686.33**	5,809.49
Petrol	MWh	415.87	7.15	42.75	**465.77**	428.45
Diesel	MWh	167.17	–	–	**167.17**	315.01
Liquefied petroleum gas (LPG)	MWh	–	–	–	**–**	80.01
Towngas	MWh	53.00	–	1.16	**54.16**	1.41
Total energy consumption	MWh	3,556.20	3,761.15	56.08	**7,373.43**	6,634.37
Energy consumption intensity	Aerosol: MWh/tonnes of production	0.064				Aerosol: 0.071
	Clean energy: MWh/m^2		0.011			Clean energy: 0.009
	Investment: MWh/m^2			0.027		Investment: 0.029

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 increase in water consumption in 2019 was mainly attributable to the increase in manufacture and sales of aerosol and related products during the year. The water consumption of the Group during the reporting period is as follow:

Water consumption	Unit	Aerosol business	Clean energy business	Investment Holding Business	2019 Total	2018 Total
Water consumption	m^3	170,676	–	109	**170,785**	109,754
Water consumption intensity	Aerosol: m^3/tonnes of production	3.07	–			Aerosol: 2.18
	Investment: m^3/m^2			0.05		Investment: 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 increase in amount of packaging materials in 2019 was mainly attributable to the increase in manufacture and sales of aerosol and related products during the year. The consumption of those materials of the Group during the year is summarized below:

Packing materials	Unit	Aerosol business	Clean energy business	Investment Holding Business	2019 Total	2018 Total
Paper	tonnes	3,666.03	–	–	**3,666.03**	3,217.27
Plastic	tonnes	1,514.45	–	–	**1,514.45**	1,404.02
Metal	tonnes	9,176.96	–	–	**9,176.96**	8,720.02
Intensity	tonnes/tonnes of production	0.26	–	–		Aerosol: 0.27

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.

EMPLOYMENT AND LABOUR PRACTICES

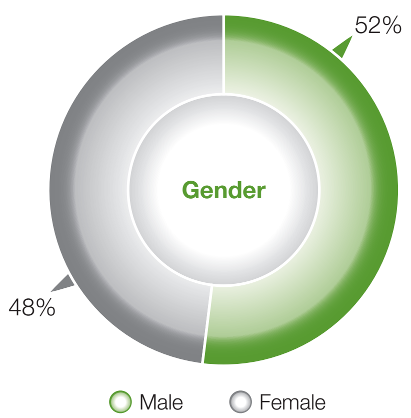
B1. EMPLOYMENT

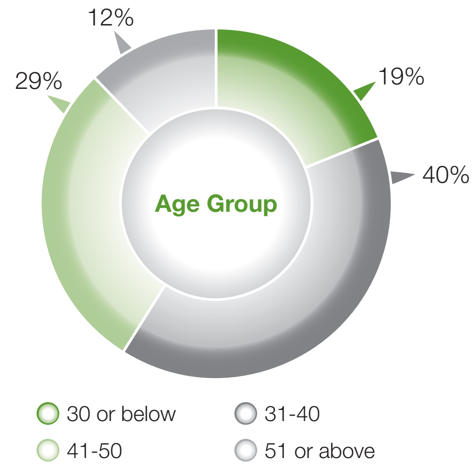
The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide a good working environment to employees where they can have a safe and healthy workplace to engage and perform to the satisfaction of the Group.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

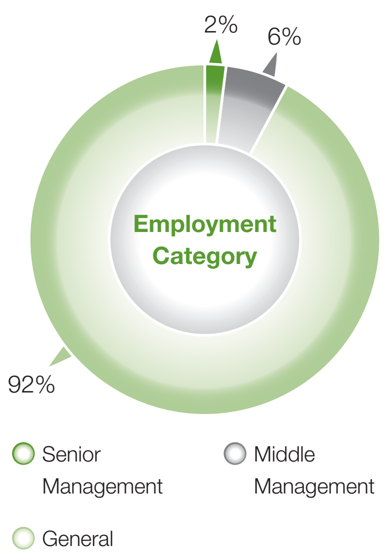
The Group respects the employees' rights. All of the employees of the Group are treated equally. Their employment, remuneration and promotion are not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.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

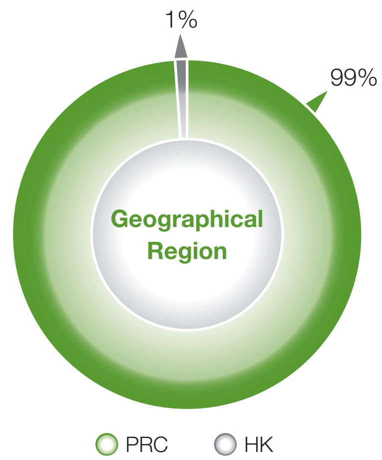
The Group strictly complies with the national laws and the system of the Group, and to refuse violation of business ethics. Throughout the year, the Group fully complied with all of the relevant laws and regulations in the countries and regions, such as the Employment Ordinance (Cap. 57), the Minimum 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 469 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:

	Turnover rates (%)	
Employment	**2019**	2018
By gender		
– Male	**51**	44
– Female	**49**	47
By age group		
– 30 years old or below	**100**	87
– 31-40 years old	**41**	33
– 41-50 years old	**30**	37
– 51 years old or above	**27**	7
By geographical region		
– PRC	**51**	46
– HK	**–**	17
Overall	**50**	**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 to 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 mainly focuses 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 30,800 hours (2018: 30,000 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 employment category is as follows:

Training	Average training hours *(hours/employee)*		Percentage of employee trained *(%)*	
	2019	2018	**2019**	2018
By gender				
– Male	**84**	69	**92**	99
– Female	**78**	68	**99**	100
By employment category				
– Senior management	**81**	68	**73**	80
– Middle management	**75**	68	**92**	96
– General	**81**	69	**96**	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	
	2019	2018
Mainland China	**248**	**250**
– Zhejiang Province	105	107
– Shanghai	44	45
– Guangdong Province	47	46
– Jiangsu Province	32	32
– Beijing	1	1
– Hebei Province	2	2
– Anhui Province	4	4
– Fujian Province	3	3
– Liaoning Province	1	1
– Shandong Province	5	5
– Jiangxi Province	2	2
– Tianjin	1	1
– Henan Province	1	1
Overseas	**–**	**5**
Total	**248**	**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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

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The Directors are pleased to present their report and the audited and consolidated financial statements for the year ended 31 December 2019.

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 37 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 a review of the business of the Group, 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. The discussion contained therein 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 2019, 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 2019 are set out in the consolidated statement of comprehensive income on page 79.

The Board resolved not to recommend any final dividend for the year ended 31 December 2019.

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 192 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, 15 June 2020 to Thursday, 18 June 2020, 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, 18 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 12 June 2020.

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 16 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 2019, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB8.9 million (2018: RMB120.9 million). This includes the Company's share premium account of approximately RMB165.9 million as at 31 December 2019 (2018: RMB165.9 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 revenue from sales and purchases attributable to the Group's largest customers and suppliers are as follows:

	2019 %	2018 %
Sales		
– the largest customer	**29.1**	26.1
– five largest customers combined	**58.0**	59.4
Purchases		
– the largest supplier	**28.9**	25.2
– five largest suppliers combined	**49.0**	52.1

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

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. Yu Yuerong, Ms. Pan Yili and Mr. Wang Xiaobing shall therefore be retired at the forthcoming AGM by rotation and, being eligible, offer themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' MATERIAL INTERESTS 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, the connected party to the 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 substantial part of the Company's business were entered into or existed between the Company and any person who is not a Director or not engaged in the full-time employment of the Group 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 2019 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 2019, 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	–	231,728,000 *(Note 2)*	231,728,000	47.12%
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 2019.

(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 2019, 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 2019, 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	231,728,000	47.12%
Ms. Wang Jinfei *(Note 3)*	Interest of spouse	231,728,000	47.12%
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 2019.

(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 2019.

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.

EQUITY-LINKED AGREEMENTS

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

The outbreak of COVID-19 since early 2020 has brought about uncertainties to the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact of COVID-19 on the Group's business and has commenced to put in place various measures to mitigate any potential impact. Based on the information currently available, the Directors believe that there has been no material adverse change in the financial position of the Group since 31 December 2019 and up to the date of this report. However, the actual impact may differ from such estimate as the situation continues to evolve and further information becomes available.

Save as disclosed above and in the paragraph headed "Other Information" in the section headed "Management Discussion and Analysis" of this report, there are no material subsequent events undertaken by the Group after 31 December 2019 till the date of this report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2019 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, 8 May 2020

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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 79 to 191, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

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 2019, the Group's trade receivables, gross and loss allowances thereon amounted to approximately RMB126,612,000 and RMB1,272,000 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 20 "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.

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.

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, 8 May 2020

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
		Year ended 31 December	
Revenue	6	**412,578**	405,047
Cost of sales		**(299,062)**	(309,907)
Gross profit		**113,516**	95,140
Other income	6	**5,117**	4,275
Other gains – net	6	**2,377**	9,823
Selling expenses		**(25,024)**	(22,744)
Administrative expenses		**(47,026)**	(46,356)
Operating profit		**48,960**	40,138
Finance income	9	**2,383**	2,369
Finance costs	9	**(22,437)**	(18,950)
Finance costs – net	9	**(20,054)**	(16,581)
Share of results of joint ventures	13	**2,653**	5,126
Share of results of associates	14	**(225)**	–
Profit before income tax		**31,334**	28,683
Income tax expense	11	**(7,582)**	(5,444)
Profit for the year		**23,752**	23,239
Other comprehensive expenses			
Items that may be reclassified to profit or loss:			
Currency translation differences		**(2,844)**	(4,818)
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	**(81,729)**	(3,495)
Other comprehensive expenses for the year, net of tax		**(84,573)**	(8,313)
Total comprehensive (expenses)/income for the year attributable to the owners of the Company		**(60,821)**	14,926
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 84 to 191 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investments in joint ventures	13	**63,184**	62,418
Investments in associates	14	**73,689**	–
Land use rights	15	**–**	5,062
Property, plant and equipment	16	**95,487**	101,074
Right-of-use-assets	15	**12,345**	–
Investment property	17	**12,600**	11,700
Intangible assets	18	**331**	266
Deferred income tax assets		**312**	331
Financial asset at fair value through other comprehensive income	21	**66,931**	148,660
Financial asset at fair value through profit or loss	21	**–**	2,442
Trade and other receivables	20	**511**	–
Prepayments for property, plant and equipment		**–**	2,247
		325,390	334,200
Current assets			
Inventories	19	**38,679**	44,034
Trade and other receivables	20	**197,130**	221,309
Amount due from a joint venture	13	**–**	500
Financial asset at fair value through profit or loss	21	**9,132**	6,206
Cash and cash equivalents	22	**48,775**	69,538
Short-term bank deposits	22	**103,319**	103,099
Pledged bank deposits	23	**23,795**	17,324
		420,830	462,010
Total assets		**746,220**	796,210
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	25	**3,901**	3,901
Share premium	25	**150,143**	150,143
Other reserves	26	**(23,674)**	55,660
Retained earnings		**196,755**	178,242
Total equity		**327,125**	387,946

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
		As at 31 December	
LIABILITIES			
Non-current liabilities			
Bonds	*29*	**–**	15,102
Note	*30*	**–**	102,420
Convertible bonds	*31*	**33,426**	31,456
Deferred government grants	*27*	**609**	739
Lease liabilities	*15*	**3,946**	–
Deferred income tax liabilities		**1,054**	949
		39,035	150,666
Current liabilities			
Trade and other payables	*28*	**135,520**	134,761
Contract liabilities	*6*	**23,127**	9,583
Current income tax liabilities		**14**	1,208
Financial liabilities at fair value through profit or loss	*31*	**2,472**	2,040
Bank borrowings	*32*	**93,310**	59,906
Bonds	*29*	**16,266**	50,100
Note	*30*	**106,170**	–
Lease liabilities	*15*	**3,181**	–
		380,060	257,598
Total liabilities		**419,095**	408,264
Total equity and liabilities		**746,220**	796,210

The notes on pages 84 to 191 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 79 to 191 were approved by the Board of Directors on 8 May 2020 and were signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2018	**3,801**	**134,143**	**60,080**	**158,896**	**356,920**
Comprehensive income					
Profit for the 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**
Balance at 1 January 2019	**3,901**	**150,143**	**55,660**	**178,242**	**387,946**
Comprehensive income					
Profit for the year	–	–	–	23,752	23,752
Changes in fair value of equity investments at fair value through other comprehensive income	–	–	(81,729)	–	(81,729)
Currency translation differences	–	–	(2,844)	–	(2,844)
Total comprehensive income	–	–	(84,573)	23,752	(60,821)
Transaction with owners					
Profit appropriation	–	–	5,239	(5,239)	–
Balance at 31 December 2019	**3,901**	**150,143**	**(23,674)**	**196,755**	**327,125**

The notes on pages 84 to 191 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	34	**111,108**	16,334
Interest paid		**(20,885)**	(12,994)
Income tax paid		**(8,651)**	(4,040)
Net cash generated from/(used in) operating activities		**81,572**	(700)
Cash flows from investing activities			
Payment for acquisition of joint venture		**–**	(2,550)
Payment for capital injection in a joint venture		**(4,467)**	–
Payment for acquisition of equity investment		**–**	(42,251)
Payment for acquisition of an associate		**(67,500)**	–
Purchase of property, plant and equipment		**(2,039)**	(14,598)
Payment for right-of-use assets		**(231)**	–
Proceeds from disposals of property, plant and equipment		**582**	47
Purchase of intangible assets		**(136)**	–
(Increase)/decrease of pledged bank deposits		**(6,471)**	5,874
Decrease/(increase) of short-term bank deposits		**26**	(14,960)
Interest received		**2,383**	2,369
Net cash used in investing activities		**(77,853)**	(66,069)
Cash flows from financing activities			
(Redemption)/proceeds from issue of bonds, net of issuance costs		**(51,895)**	14,064
Repayment of principal portion of the lease liabilities		**(2,475)**	–
Proceeds from issue of note, net of insurance costs		**–**	97,749
Proceeds from bank borrowings		**96,697**	57,998
Repayments of bank borrowings		**(64,197)**	(45,106)
Repayment of loans from a third party		**–**	(49,626)
Proceeds from notes payable		**172,576**	120,971
Repayments of notes payable		**(174,804)**	(117,353)
Net cash (used in)/generated from financing activities		**(24,098)**	78,697
Net (decrease)/increase in cash and cash equivalents		**(20,379)**	11,928
Cash and cash equivalents at beginning of the year	22	**69,538**	54,268
Currency translation differences		**(384)**	3,342
Cash and cash equivalents at end of the year	22	**48,775**	69,538

The notes on pages 84 to 191 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. Ludao China Investments Holdings Limited ("Ludao Investments"), which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), has 47.12% 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 8 May 2020.

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 accounting policies and method of computation used in the preparation of the consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended 31 December 2018 except for the changes mentioned below.

(a) Adoption of new/revised HKFRSs – effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

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

- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

(i) Impact of the adoption of HKFRS 16 (Continued)

The following tables summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

Consolidated statement of financial position as at 1 January 2019

	RMB'000
Right-of-use assets	12,454
Land use rights	(5,062)
Trade and other receivables	(257)
Lease liabilities (current)	1,941
Lease liabilities (non-current)	5,194

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

(i) Impact of the adoption of HKFRS 16 (Continued)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitments as of 31 December 2018	9,282
Less: short term leases for which lease terms end within 31 December 2019	(1,572)
Less: future interest expenses	(575)
Total lease liabilities as of 1 January 2019	7,135

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 4.77%.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (Continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2019* *(Continued)*

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 (Continued)

(iii) Accounting as a lessee (Continued)

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

(iii) Accounting as a lessee (Continued)

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment property. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 at the amount equal to lease liabilities, adjusted by any related prepaid or accrued lease payments previously recognised. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; and (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective

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.

Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Amendments to HKAS 1 and HKAS 8 – Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

HKFRS 17 – Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

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.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, 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 *(Continued)*

2.2.1 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)*

2.2.2 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

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 – 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 – net' in the consolidated statement of comprehensive income.

2.7 Investment property

Investment property is property held or right to use asset held by the Group as a lessee either to earn rentals or for capital appreciation or for both, but not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. 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 fairch values are recorded in the statement of profit or loss as part of a valuation gain or loss in 'other gains – net'.

In comparative period, 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.

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

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- Right-of-use assets
- intangible assets;
- interests in associates;
- interests in joint venture; and
- investments in subsidiaries in the Company's statement of financial position

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments

2.11.1 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 fair value through profit or loss ("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.

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 fair value through other comprehensive income ("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 Financial instruments *(Continued)*

2.11.2 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 Financial instruments *(Continued)*

2.11.3 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 Financial instruments *(Continued)*

2.11.3 Impairment loss on financial assets (Continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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 realizing security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information that a more lagging default criterion is more appropriate.

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.

2.11.4 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 Financial instruments *(Continued)*

2.11.5 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 Financial instruments *(Continued)*

2.11.5 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 Financial instruments *(Continued)*

2.11.6 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.

2.11.7 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.

2.11.8 Equity instruments

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

2.11.9 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 HKFRS 9.

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

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

2.23.1 Revenue recognition

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)*

2.23.1 Revenue recognition *(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 include provision of consultation services, feasibility analysis and the application of technique. Revenue from provision of consultation services is recognised over time based on contractual terms specified in the underlying agreements, as the customer simultaneously receives and consumes the benefits providing by the Group's performance as the Group performs and the revenue can be measured reliably. Revenue from provision of is feasibility analysis and the application of technique is recognised at a 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.

(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 accounting policy stated in Note 2.24.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

2.23.2 Contract assets and liabilities

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.

2.23.3 Contract costs

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

2.24.A Leases (accounting policies applied from 1 January 2019)

The Group as a lessee

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Leases *(Continued)*

2.24.A *Leases (accounting policies applied from 1 January 2019) (Continued)*

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group as a lessor

The Group has leased out its investment property to a tenant. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Leases *(Continued)*

2.24.B Leases (accounting policies applied until 31 December 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

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	
	2019	2018
	RMB'000	*RMB'000*
Assets		
HKD and USD	**123,598**	153,761
Liabilities		
HKD and USD	**182,731**	227,593

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	
	2019	2018
	RMB'000	*RMB'000*
5% appreciation in exchange rate against HKD and USD		
Increase/(decrease) in the profit for the year	**2,957**	3,692

(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.

In respect of trade and other receivables, the evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Trade receivables are due between 0 to 180 days from the date of billing.

None of the Group's financial assets are secured by collateral or other credit enhancements.

As at 31 December 2019, the Group had certain concentration of credit risk as 78% (2018: 66%) 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 as at 31 December 2019:

Trade receivables:

2019	**Expected loss rate** *(%)*	**Gross carrying amount** *(RMB'000)*	**Loss allowance** *(RMB'000)*
Current (not past due)	0.01	89,901	8
1-30 days past due	0.15	10,614	16
31-90 days past due	1.30	18,221	237
91-365 days past due	2.06	4,572	94
More than 365 days past due	27.75	3,304	917
	N/A	126,612	1,272

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

For the year ended 31 December 2018, the expected credit loss on the Group's existing trade receivables is not material, therefore no expected credit loss allowance was recognised.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk (Continued)

Other Receivables

2019	12-month ECLs *(RMB'000)*
Other receivables	94

For other receivables, the ECLs are based on 12-month ECLs because they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

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 2019				
Trade and other payables (excluding other taxes payable, payroll payable)	82,096	48,911	1,756	132,763
Bank borrowings	16,012	79,607	–	95,619
Bonds	8,024	9,200	–	17,224
Note	–	112,331	–	112,331
Convertible bonds	–	–	34,329	34,329
Lease liabilities	2,220	1,205	4,074	7,499
	108,352	251,254	40,159	399,765
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

(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 2019 and 2018, 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	
	2019	2018
	RMB'000	*RMB'000*
Bank borrowings	**93,310**	59,906
Notes payable	**84,350**	86,578
Bonds	**16,266**	65,202
Note	**106,170**	102,420
Convertible bonds	**33,426**	31,456
Total borrowings	**333,522**	345,562
Total equity	**327,125**	387,946
Gearing ratio	**102%**	89%

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 2019	*Note*	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial asset at FVOCI					
Unlisted equity securities	*21*	–	–	66,931	66,931
Financial asset at FVTPL					
Profit guarantee	*21*	–	–	9,132	9,132
Total financial assets		–	–	76,063	76,063
Financial liabilities at FVTPL					
Derivative component of convertible bonds	*31*	–	–	2,472	2,472

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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	*31*	–	–	2,040	2,040

During the year ended 31 December 2019, there were no transfers between levels of the fair value hierarchy.

The following table presents the changes in level 3 items for the years ended 31 December 2019 and 31 December 2018:

	Unlisted equity securities *RMB'000*	**Profit guarantee** *RMB'000*	**Derivative component of convertible bonds** *RMB'000*
At 1 January 2018	–	–	–
Acquisitions	152,155	7,857	1,510
Changes recognised in other gains in profit or loss	–	791	530
Losses recognised in other comprehensive income	(3,495)	–	–
At 31 December 2018 and 1 January 2019	148,660	8,648	2,040
Changes recognised in other gains in profit or loss	–	484	432
Losses recognised in other comprehensive income	(81,729)	–	–
At 31 December 2019	66,931	9,132	2,472

See Note 17 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 ECLs of trade receivables

Before the adoption of HKFRS 9, the Group determines the provision for ECLs on trade receivables (Note 20). 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 2019, the provision for impairment on trade receivables are RMB1,272,000 (2018: RMB103,000) 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 ECLs 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 20.

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 17.

(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

	2019 *RMB'000*	2018 *RMB'000*
Mainland China	**136,752**	107,811
United States of America	**172,170**	171,265
Europe	**3,244**	7,068
Japan	**9,897**	33,440
Chile	**70,664**	64,884
Others	**19,851**	20,579
	412,578	405,047

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 2019 and 2018 consist of right-of-use assets (2018: 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:

	2019 *RMB'000*	2018 *RMB'000*
Customer A	**120,143**	105,574
Customer B	**69,872**	62,490
Customer C	**N/A**	23,818
Customer D	**31,186**	33,159

n/a Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2019

6 REVENUE, OTHER INCOME AND OTHER GAINS – NET

	2019 *RMB'000*	2018 *RMB'000*
Revenue		
Sales of goods	**412,578**	405,047
Other income		
Government grants	**2,984**	659
Technical service fee	**336**	2,388
Rental income	**354**	314
Others	**1,443**	914
	5,117	4,275
Other gains – net		
Foreign exchange gain	**1,293**	61
Fair value gain on investment property *(Note 17)*	**900**	3,800
Change in fair value of financial liabilities at FVTPL *(Note 31)*	**(432)**	(530)
Change in fair value of financial asset at FVTPL *(Note 21)*	**484**	791
Gain on profit guarantee *(Note)*	**–**	5,706
Others	**132**	(5)
	2,377	9,823

Revenue from contract with customers disaggregated revenue information

	2019 *RMB'000*	2018 *RMB'000*
Revenue under HKFRS 15		
At point in time		
– Sales of goods	**412,578**	405,047
– Technical service fee	**–**	2,388
	412,578	407,435
Over time		
– Technical service fee	**336**	–
	412,914	407,435

6 REVENUE, OTHER INCOME AND OTHER GAINS – 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.

On 17 January 2020, Wealth Linkage, the guarantors and the Company have agreed that the amount of the monetary compensation payable by Wealth Linkage to the Company as a result of the non-fulfilment of the Profit Guarantee in the amount of RMB5,919,000 shall be paid in two equal instalments in December 2019 and December 2020. In December 2019, the first instalment in the amount of RMB2,960,000 was duly paid by the Wealth Linkage to the Company. In March 2020, the second installment in the amount of RMB2,959,000 was early settled by Wealth Linkage to the Company.

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

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

	As at 31 December 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Contract liabilities	**23,127**	9,583

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

Movements in contract liabilities

	RMB'000
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
Revenue recognised that was included in the contact liabilities balance at the beginning of year	(7,980)
Reclassificant of opening contract liabilities to other payables due to cancellation of sales order during the year	(1,603)
Increase due to cash received, excluding amount recognised as revenue during the year	23,127
Balance at 31 December 2019	23,127

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:

	2019 *RMB'000*	2018 *RMB'000*
Depreciation and amortisation *(Note 15,16,18)*	**12,383**	10,120
Employee benefit expenses, excluding amount included in share option expenses and research and development costs *(Note 8)*	**37,416**	34,116
Raw materials used	**264,543**	295,820
Changes in inventories of finished goods and work in progress	**7,315**	(10,008)
Water and electricity expenditures	**4,050**	3,480
Transportation and travelling expenses	**18,892**	19,382
Telecommunication expenses	**532**	535
Advertising expenses	**560**	414
Other tax expenses	**2,876**	2,931
Research and development costs		
– Employee benefit expenses	**7,624**	4,477
– Materials and others, excluding depreciation and amortisation	**2,677**	5,986
Auditor's remuneration		
– Audit services	**1,318**	1,086
Entertainment expenses	**1,497**	1,770
Operating lease expenses	**–**	4,091
Short-term lease expense	**999**	–
Professional services fees	**2,392**	2,942
Inventories written off	**441**	–
Impairment loss on trade and other receivables	**1,263**	–
Other expenses	**4,334**	1,865
	371,112	379,007

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2019 RMB'000	2018 RMB'000
Wages, allowances and bonus	**40,604**	34,188
Retirement scheme contribution	**2,421**	2,417
Others	**2,015**	1,988
	45,040	38,593

(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 2019 (2018: 22%). It is the local government's responsibility to pay the retirement pension to the staffs who retire.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2018: two) directors whose emoluments are reflected in the analysis in Note 38. The emoluments paid to the remaining two individuals (2018: three) during the year are as follows:

	2019 RMB'000	2018 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,053**	1,244
Retirement scheme contribution	**31**	42
	1,084	1,286

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

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

	Number of individuals	
	2019	2018
Emoluments bands		
Nil to HKD1,000,000	**2**	3

9 FINANCE COSTS – NET

	2019	2018
	RMB'000	*RMB'000*
Interest income	**2,383**	2,369
Foreign exchange gain/(loss)	**534**	(782)
Interest expense		
– Bonds	**(5,270)**	(6,664)
– Bank borrowings	**(3,422)**	(2,072)
– Other loans	**–**	(1,685)
– Interest on lease liabilities	**(320)**	–
– Note instrument	**(11,989)**	(6,261)
– Convertible bonds *(Note 31)*	**(1,970)**	(1,486)
	(22,437)	(18,950)
Finance costs – net	**(20,054)**	(16,581)

10 TOTAL FOREIGN EXCHANGE

	2019 RMB'000	2018 RMB'000
Net finance income/(expense) *(Note 9)*	**534**	(782)
Other gains - net *(Note 6)*	**1,293**	61
Total	**1,827**	(721)

11 INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current income tax	**7,458**	4,851
Deferred income tax	**124**	593
	7,582	5,444

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 (2018: 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 2017 to 31 December 2019.

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:

	2019 *RMB'000*	2018 *RMB'000*
Profit before income tax	**31,334**	28,683
Less: share of results of joint ventures	**(2,653)**	(5,126)
Add: Share of results of associates	**225**	–
	28,906	23,557
Tax calculated at the tax rate of 15% (2018: 15%)	**4,336**	3,534
Additional research and development deductible expenses	**(1,751)**	(1,283)
Effects of income not taxable and expenses not deductible for tax purposes and others	**4,997**	3,193
	7,582	5,444

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 2019, the Group did not recognise deferred tax liabilities of RMB26,646,700 (2018: RMB21,931,400) on RMB266,467,000 (2018: RMB219,314,000) 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.

	2019	2018
Profit attributable to owners of the Company (RMB'000)	**23,752**	23,239
Weighted average number of ordinary shares in issue (thousands of shares)	**491,800**	488,987
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 2019 and 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 for the year ended 31 December 2019 and 2018, as they are anti-dilutive.

13 INVESTMENTS IN JOINT VENTURES/AMOUNT DUE FROM A JOINT VENTURE

	2019 *RMB'000*	2018 *RMB'000*
As at 1 January	**62,418**	54,551
Additions	**4,467**	2,550
Reclassification *(Note ii)*	**(6,414)**	–
Share of results	**2,653**	5,126
Exchange adjustment	**60**	191
As at 31 December	**63,184**	62,418

As at 31 December 2019, 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 2019	Equity interest held 2018	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%**	50%	Investment holding, BVI
Sinopharm Jinyue Aerosol Group Co. Ltd. ("Sinopharm Jinyue Aerosol") *(Note ii)*	Limited liability company	The PRC	RMB70,317,295	**–**	51%	Research and development, manufacture and sale of medical and edible aerosol products, the PRC

13 INVESTMENTS IN JOINT VENTURES/AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Notes:

(i) During the year ended 31 December 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 Jinyue Aerosal. Sinopharm Jinyue 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 2019, the Group injected capital of RMB4,467,000 (2018: RMB2,550,000) to Sinopharm Jinyue Aerosol before it was reclassified from a joint venture to an associate of the Group (Note 14).

13 INVESTMENTS IN JOINT VENTURES/AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Summarised financial information for Illustrious Success:

	2019 *RMB'000*	2018 *RMB'000*
Current assets		
Cash and cash equivalents	**1,964**	806
Trade and other receivables	**18,675**	12,637
Total current assets	**20,639**	13,443
Non-current assets		
Payments for land use rights	**1,672**	1,716
Property, plant and equipment	**23,718**	22,820
Intangible asset (a)	**46,207**	48,057
Total non-current assets	**71,597**	72,593
Current liabilities		
Trade and other payables	**12,604**	14,949
Current income tax liabilities	**3,426**	2,708
Total current liabilities	**16,030**	17,657
Non-current liabilities		
Deferred income tax liabilities	**11,131**	11,583
Total non-current liabilities	**11,131**	11,583
Net assets	**65,075**	56,796

13 INVESTMENTS IN JOINT VENTURES/AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

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

	2019 ***RMB'000***	2018 *RMB'000*
Revenue	**15,917**	20,939
Depreciation and amortisation	**(3,915)**	(3,974)
Other operating expenses	**(1,508)**	(2,915)
Income tax expense	**(2,213)**	(3,416)
Profit from operations	**8,281**	10,634
Other comprehensive income	**(4)**	(6)
Total comprehensive income	**8,277**	10,628

13 INVESTMENTS IN JOINT VENTURES/AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Reconciliation of summarised financial information

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

	2019	2018
	RMB'000	*RMB'000*
Net assets attributable to owners of Illustrious Success	**50,120**	43,409
Group's share in %	**50%**	50%
Group's share	**25,060**	21,705
Goodwill and exchange adjustment	**38,124**	38,163
Carrying amount	**63,184**	59,868

The following table illustrates the financial information of Sinopharm Jinyue Aerosol that is not individually material:

	2019	**2018**
	RMB'000	*RMB'000*
Share of Sinopharm Jinyue Aerosol's loss/total comprehensive expense for the year	**(604)**	–
Carrying amount of the Group's investment in Sinopharm Jinyue Aerosol *(Note)*	**–**	2,550

Note:

During the year ended 31 December 2019, Sinopharm Jinyue Aerosol was reclassified from a joint venture to an associate of the Group due to the amendments of the articles of association and change of the board composition of Sinopharm Jinyue Aerosol. The Group shared Sinopharm Jinyue Aerosol's loss of approximately RMB604,000 during the period from 1 January 2019 to 31 December 2019.

13 INVESTMENTS IN JOINT VENTURES/AMOUNT DUE FROM A JOINT VENTURE *(Continued)*

Reconciliation of summarised financial information *(Continued)*

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

	2019 *RMB'000*	2018 *RMB'000*
Amount due from a joint venture (Note)	–	500

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

14 INVESTMENTS IN ASSOCIATES

	2019 *RMB'000*	2018 *RMB'000*
Share of net assets	73,689	–

14 INVESTMENTS IN ASSOCIATES *(Continued)*

Name	Form of business structure	Place of establishment	Paid-up registered capital	Equity interest held 2019	Equity interest held 2018	Principal activities and place of operation
浙江國藥景岳氣霧劑有限公司 (Zhejiang Sinopharm Jinyue Aerosol Co., Ltd*) *(Note i)*	Limited liability company	The PRC	RMB134,000,000	**44.2%**	–	Research and development on aerosol and make up products, provide consultancy service on aerosol and make up products, production and manufacturing aerosol and related products, the PRC
Sinopharm Jinyue Aerosol	Limited liability company	The PRC	RMB70,317,295	**7%****	–	Research and development, manufacture and sale of medical and edible aerosol product, the PRC

* The English name is for identification purpose only

** Although the Group's ownership interest in Sinopharm Jinyue Aerosol is less than 20%, the Group has two out of five directors in the board of directors of Sinopharm Jinyue Aerosol. The directors of the Company therefore consider the Group has the power to exercise significant influence and classify Sinopharm Jinyue Aerosol as an associate from 4 December 2019.

Notes:

(i) During the year ended 31 December 2019, the Group injected capital of RMB67,500,000 in Zhejiang Sinopharm Jinyue Aerosol Co., Ltd ("Zhejiang Sinopharm Jinyue Aerosol") which was established on 27 June 2019.

(ii) During the year ended 31 December 2019, Sinopharm Jinyue Aerosol was reclassified from a joint venture to an associate of the Group (Note 13) and did not start its business.

14 INVESTMENTS IN ASSOCIATES *(Continued)*

(a) Summarised financial information of material associates, adjusted for any difference in accounting policies:

Zhejiang Sinopharm Jinyue Aerosol

	2019 *RMB'000*
Current assets	**102,142**
Non-current assets	**33,656**
Current liabilities	**(1,255)**
Non-current liabilities	**(1,630)**
Net assets	**132,913**
Group's share of the net assets of the associate	**67,301**
Revenue	**–**
Loss from continuing operations	**(1,087)**
Other comprehensive income	**–**
Total comprehensive expenses	**(1,087)**

14 INVESTMENTS IN ASSOCIATES *(Continued)*

(b) Summarised financial information of material associates, adjusted for any difference in accounting policies:

Sinopharm Jinyue Aerosol

	2019 *RMB'000*
Current assets	100,063
Non-current assets	40,226
Current liabilities	(2,625)
Non-current liabilities	(1,630)
Net assets	136,034
Group's share of the net assets of the associate	6,388
Revenue	–
Loss from continuing operations	(1,453)
Other comprehensive income	–
Total comprehensive expenses	(1,453)

15 LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2.1(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 2.24.

The Group as a lessee

The Group leases a number of properties in the China and Hong Kong from which it operates. Leases of properties generally have lease terms between 2 and 5 years.

(a) Land use right (before 1 January 2019)

	RMB,000
Carrying amount	
At 1 January 2018	5,186
Amortisation	(124)
At 31 December 2018	5,062

Lump sum payments were made upfront to acquired the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases.

15 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land use right *RMB'000* *(Note)*	Office premises and director's quarter *RMB'000*	Total *RMB'000*
At 1 January 2019	5,062	7,392	12,454
Addition	–	2,654	2,654
Depreciation *(Note 7)*	(124)	(2,686)	(2,810)
Exchange adjustment	–	47	47
At 31 December 2019	4,938	7,407	12,345

Note:

As at 31 December 2019 and 2018, the Group's land use rights were pledged to secure notes payable (Note 28 (b)).

15 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 *RMB'000*
At 1 January	7,135
Addition	2,423
Interest expense	320
Lease payments	(2,795)
Foreign exchange movements	44
At 31 December	7,127

Future lease payments are due as follows:

	Minimum lease payments 31 December 2019 *RMB*	Interest 31 December 2019 *RMB*	Present value 31 December 2019 *RMB*
Not later than one year	3,425	(244)	3,181
Later than one year and not later than two years	2,331	(107)	2,224
Later than two years and not later than five years	1,743	(21)	1,722
	7,499	(372)	7,127

15 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(c) Lease liabilities (Continued)

	Minimum lease payments 1 January 2019 *RMB* *(Note)*	Interest 1 January 2019 *RMB* *(Note)*	Present value 1 January 2019 *RMB* *(Note)*
Not later than one year	2,216	(275)	1,941
Later than one year and not later than two years	2,008	(180)	1,828
Later than two years and not later than five years	3,486	(120)	3,366
	7,710	(575)	7,135

The present value of future lease payments are analysed as:

	31 December 2019 *RMB*	1 January 2019 *RMB* *(Note)*
Current liabilities	3,181	1,941
Non-current liabilities	3,946	5,194
	7,127	7,135

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. See note 2.1(a) for further details about transition.

15 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 *RMB,000*
Depreciation of right-of-use assets	**2,810**
Interest on lease liabilities	**320**
Short-term lease expense	**999**
	4,129

The Group as a lessor

The lease term is 38 months (2018: 5 years), the Group had future aggregate minimum lease rentals receivable under non-cancellable operating leases as follows:

	2019 *RMB'000*	2018 *RMB'000*
Not later than one year	**375**	354
Later than one year and not later than five years	**820**	1,170
	1,195	1,524

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2018						
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
Year ended 31 December 2019						
Opening net book amount	56,948	22,303	17,741	3,941	141	101,074
Additions	371	2,308	973	798	443	4,893
Disposal	(1,809)	(3,754)	(61)	(1,361)	–	(6,985)
Transfer	–	490	–	–	(490)	–
Eliminated on disposal	1,809	2,921	52	1,225	–	6,007
Depreciation *(Note 7)*	(3,859)	(2,887)	(2,183)	(573)	–	(9,502)
Closing net book amount	53,460	21,381	16,522	4,030	94	95,487
At 31 December 2019 (Unaudited)						
Cost	75,653	41,183	25,312	6,673	94	148,915
Accumulated depreciation	(22,193)	(19,802)	(8,790)	(2,643)	–	(53,428)
Net book amount	53,460	21,381	16,522	4,030	94	95,487

16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged in:

	2019	2018
	RMB'000	*RMB'000*
Cost of sales	**3,332**	3,271
Administrative expenses	**6,163**	6,619
Selling expenses	**7**	11
Total	**9,502**	9,901

As at 31 December 2019, the Group's buildings with the carrying amount of RMB11,407,000 (2018: RMB11,839,000) were pledged to secure notes payable (Note 28(b)).

17 INVESTMENT PROPERTY

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**11,700**	7,900
Fair value adjustment *(Note 6)*	**900**	3,800
At 31 December	**12,600**	11,700

As at 31 December 2019, the Group had no unprovided contractual obligations for future repairs and maintenance (2018: 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.

17 INVESTMENT PROPERTY *(Continued)*

Valuation processes of the Group

The Group's investment property was valued at 31 December 2019 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 2019	Valuation techniques	Unobservable inputs	Amount of unobservable inputs
Investment property	12,600,000	Direction comparison method	Market price (RMB/square meter)	20,053

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 – net' in the consolidated statement of comprehensive income (Note 6).

18 INTANGIBLE ASSETS

	Computer Software RMB'000	Patents RMB'000	Total RMB'000
At 1 January 2018			
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
Year ended 31 December 2019			
Opening net book amount	266	–	266
Additions	136	–	136
Amortisation charge *(Note 7)*	(71)	–	(71)
Closing net book amount	331	–	331
At 31 December 2019			
Cost	774	750	1,524
Accumulated amortisation	(443)	(750)	(1,193)
Net book amount	331	–	331

Amortisation had been charged in administrative expenses.

19 INVENTORIES

	2019 *RMB'000*	2018 *RMB'000*
Raw materials	**22,221**	24,027
Work in progress	**252**	134
Finished goods	**16,206**	19,873
Inventories – net	**38,679**	44,034

The cost of inventories included in cost of sales during the year ended 31 December 2019 amounted to RMB271,858,000 (2018: RMB285,812,000).

During the year ended 31 December 2019, the Group did not make or reverse any provision for inventories (2018: Nil).

20 TRADE AND OTHER RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Non-current		
Deposits	**511**	–
Current		
Trade receivables, net (a)	**125,340**	131,600
Prepayments and deposits	**63,687**	78,159
Notes receivable	**–**	500
Other receivables (b)	**8,103**	11,050
	197,130	221,309
	197,641	221,309

20 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2019 *RMB'000*	2018 *RMB'000*
RMB	**90,846**	126,470
USD	**104,655**	63,636
HKD	**2,140**	31,203
	197,641	221,309

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:

	2019 *RMB'000*	2018 *RMB'000*
Up to 3 months	**62,080**	75,528
3 to 6 months	**27,821**	40,013
6 to 12 months	**33,407**	12,532
Over 12 months	**3,304**	3,630
	126,612	131,703
Loss allowance for impairment	**(1,272)**	(103)
	125,340	131,600

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 58% (2018: 59%) of the Group's revenue for the year. They accounted for 78% (2018: 66%) of the gross trade receivable balances as at 31 December 2019.

20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

As at 31 December 2019, trade receivables of RMB36,711,000 (2018: RMB16,069,000) were past due.

The Group and the Company recognised impairment loss based on the accounting policy stated in Note 2.11.3.

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, from the date of sales, as of the end of reporting period.

	2019	2018
	RMB'000	*RMB'000*
Up to 3 months	**62,074**	75,528
3 to 6 months	**27,819**	40,013
6 to 12 months	**33,060**	12,532
Over 12 months	**2,387**	3,527
	125,340	131,600

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.

As at 31 December 2019, loss allowances of approximately RMB1,272,000 were made against the gross amount of trade receivables (2018: RMB103,000).

20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

The movements in loss allowance for impairment of trade receivables were as follows:

	RMB'000
At 1 January 2018	323
Amount written off as uncollectible	(260)
Impairment losses	40
At 31 December 2018 and 1 January 2019	103
Impairment losses	1,169
At 31 December 2019	1,272

(b) Other receivables

The movements in loss allowance for impairment of other receivables were as follows:

	RMB'000
At 1 January 2018	–
Impairment losses	–
At 31 December 2018 and 1 January 2019	–
Impairment losses	94
At 31 December 2019	94

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

	2019	2018
	RMB'000	*RMB'000*
Non-current		
Unlisted equity securities		
Ordinary shares – Ever Clever	**66,931**	148,660

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.

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 RMB81,729,000 (2018: RMB3,495,000) was recognised in other reserves. There was a significant decrease in fair value because the business operations of HGRL have been temporarily taken over by the Huailai county government for the reason of alleged non-compliance with certain administrative measures for public utility franchise.

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

A. Financial asset at FVOCI *(Continued)*

(ii) Equity investment at FVOCI (Continued)

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				
As at 31 December 2019	Relative valuation model	Distress discount (including consideration of lack of marketability)	62.68%	5% increase/(decrease) in distress discount would result in (decrease)/ increase in fair value by RMB9,650,000
		EV/EBIT ratio	16.60x	5% increase/(decrease) in EV/EBIT ratio would result in increase/(decrease) in fair value by RMB5,270,000
		PE ratio	16.12x	5% increase/(decrease) in PE ratio would result in increase/(decrease) in fair value by RMB4,580,000
As at 31 December 2018	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

	2019 *RMB'000*	2018 *RMB'000*
Profit guarantee in respect of investment in 25% equity interest of Ever Clever (the "Profit Guarantee")		
– Non-current	**–**	2,442
– Current	**9,132**	6,206
	9,132	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 as at 31 December 2019 was estimated by applying the income approach at a discount rate of 12% (2018: 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 2.11.6.

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				
As at 31 December 2019	Discounted cash flow method	Effective interest rate	12%	10% increase/(decrease) in effective interest rate would result in (decrease)/increase in fair value by RMB49,000
		Expected probability	5%	10% increase/(decrease) in expected probability would result in increase/(decrease) in fair value by RMB913,000
As at 31 December 2018	Discounted cash flow method	Effective interest rate	15%	10% increase/(decrease) in effective interest rate would result in (decrease)/increase in fair value by RMB87,000
		Expected probability	5%	10% increase/(decrease) in expected probability would result in increase/(decrease) in fair value by RMB865,000

22 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2019 *RMB'000*	2018 *RMB'000*
Cash at banks and in hand	**152,094**	172,637
Less: Short-term bank deposits	**(103,319)**	(103,099)
Cash and cash equivalents	**48,775**	69,538

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

	2019 *RMB'000*	2018 *RMB'000*
RMB	**135,116**	113,715
HKD	**1,034**	9,667
USD	**15,900**	49,255
JPY	**44**	–
	152,094	172,637

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 2019 was 1.88% (2018: 2.6%) 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 28(b)).

As at 31 December 2019 the effective interest rate of pledged bank deposits was 1.52% (2018: 1.41%) 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	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	**133,686**	143,150	**–**	–	**–**	–	**133,686**	143,150
Financial assets at FVTPL	**–**	–	**–**	–	**9,132**	8,648	**9,132**	8,648
Financial assets at FVOCI	**–**	–	**66,931**	148,660	**–**	–	**66,931**	148,660
Cash and cash equivalents	**48,775**	69,538	**–**	–	**–**	–	**48,775**	69,538
Short-term bank deposits	**103,319**	103,099	**–**	–	**–**	–	**103,319**	103,099
Pledged bank deposits	**23,795**	17,324	**–**	–	**–**	–	**23,795**	17,324
Total	**309,575**	333,111	**66,931**	148,660	**9,132**	8,648	**385,638**	490,419

	Liabilities at amortised cost		Liabilities at FVTPL		Total	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 31 December						
Liabilities as per consolidated statement of financial position						
Bonds	**16,266**	65,202	**–**	–	**16,266**	65,202
Note	**106,170**	102,420	**–**	–	**106,170**	102,420
Bank borrowings	**93,310**	59,906	**–**	–	**93,310**	59,906
Convertible bonds	**33,426**	31,456	**–**	–	**33,426**	31,456
Trade and other payables (excluding other taxes payable and payroll payable)	**132,763**	128,772	**–**	–	**132,763**	128,772
Financial liabilities at FVTPL	**–**	–	**2,472**	2,040	**2,472**	2,040
Lease liabilities	**7,127**	–	**–**	–	**7,127**	–
Total	**389,062**	387,756	**2,472**	2,040	**391,534**	389,796

25 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2019 and 2018	
	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 2018	480,000,000	3,801	134,143
Allotted and issued on 29 March 2018 *(Note)*	11,800,000	100	16,000
At 31 December 2018, 1 January 2019 and 31 December 2019	491,800,000	3,901	150,143

All shares issued rank pari passu against each other. There are no changes in the issued capital of the Company at the year ended 31 December 2019.

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 21. 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 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
At 31 December 2018 and 1 January 2019	8,986	28,029	25,328	(3,495)	(3,188)	–	55,660
Profit appropriation (a)	–	–	5,239	–	–	–	5,239
Changes in fair value of financial asset at FVOCI	–	–	–	(81,729)	–	–	(81,729)
Currency translation differences	–	–	–	–	(2,844)	–	(2,844)
At 31 December 2019	8,986	28,029	30,567	(85,224)	(6,032)	–	(23,674)

(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 DEFERRED GOVERNMENT GRANTS

	2019 *RMB'000*	2018 *RMB'000*
At 1 January	**739**	875
Recognised to consolidated statement of comprehensive income	**(130)**	(136)
At 31 December	**609**	739

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

28 TRADE AND OTHER PAYABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade payables (a)	**42,128**	30,353
Notes payables (b)	**84,350**	86,578
Other taxes payable	**–**	3,388
Accrued expenses	**5,330**	9,655
Other payables	**3,712**	4,787
	135,520	134,761

28 TRADE AND OTHER PAYABLES *(Continued)*

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

	2019 *RMB'000*	2018 *RMB'000*
RMB	**133,241**	125,756
HKD	**2,279**	9,005
	135,520	134,761

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

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

	2019 *RMB'000*	2018 *RMB'000*
Up to 3 months	**37,978**	28,217
3 to 6 months	**2,270**	803
6 to 12 months	**1,480**	127
Over 12 months	**400**	1,206
	42,128	30,353

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

(b) Notes payables represented bank acceptance notes with maturity dates within six months, and were secured by pledged bank deposits (Note 23), the land use rights (Note 15) and certain property, plant and equipment (Note 16) of the Group.

29 BONDS

	2019 *RMB'000*	2018 *RMB'000*
Non-current	**–**	15,102
Current	**16,266**	50,100
	16,266	65,202

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.

During the year ended 31 December 2019, the entire 2017 Bonds with principal amount of HKD59,000,000 were duly settled at the maturity date.

30 NOTE

	2019 *RMB'000*	2018 *RMB'000*
Current	**106,170**	–
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.

31 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.

31 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 and 2019, were assessed by an independent valuer, was calculated using the binomial options pricing model. 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 and 2019 (Note 6).

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 and 1 January 2019	31,456	2,040	33,496
Interest charge *(Note 9)*	1,970	–	1,970
Change in fair value *(Note 6)*	–	432	432
At 31 December 2019	33,426	2,472	35,898

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

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				
As at 31 December 2019	Binomial options pricing model	Expected volatility	49.58%	10% increase/(decrease) in expected volatility would result in increase/ (decrease) in fair value by RMB429,660
		Dividend yield	0%	
As at 31 December 2018	Binomial options pricing model	Expected volatility	35% – 36%	10% increase/(decrease) in expected volatility would result in increase/ (decrease) in fair value by RMB310,000
		Dividend yield	0%	

32 BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Current	**93,310**	59,906

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 2019 was 4.35% (2018: 3.39%).

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

	2019 RMB'000	2018 RMB'000
USD	**55,810**	54,906
RMB	**37,500**	5,000
	93,310	59,906

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.

33 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2019 (2018: Nil).

34 CASH FLOW INFORMATION

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

	2019 RMB'000	2018 RMB'000
Profit before income tax	**31,334**	28,683
Adjustments for:		
Interest income *(Note 9)*	**(2,383)**	(2,369)
Interest expense *(Note 9)*	**22,971**	18,950
Depreciation of property, plant and equipment *(Note 16)*	**9,502**	9,901
Fair value gain on investment property *(Note 17)*	**(900)**	(3,800)
Inventories written off	**441**	–
Change in fair value of financial liabilities at FVTPL *(Note 31)*	**432**	530
Change in fair value of financial asset at FVTPL	**(484)**	(791)
Share of results of joint ventures *(Note 13)*	**(2,653)**	(5,126)
Share of results of associates *(Note 14)*	**225**	–
Depreciation of right-of-use assets *(Note 15)*	**2,810**	–
Amortisation of land use rights *(Note 15)*	**–**	124
Amortisation of intangible assets *(Note 18)*	**71**	95
Impairment loss on trade and other receivables	**1,263**	40
Deferred government grants income *(Note 27)*	**(130)**	(136)
Losses on disposals of property, plant and equipment	**449**	57
Changes in working capital:		
Decrease/(increase) in trade and other receivables	**22,352**	(36,770)
Decrease in inventories	**4,914**	11,995
Decrease/(increase) in amount due from a joint venture	**500**	(500)
Increase/(decrease) in trade and other payables and contract liabilities	**20,394**	(4,549)
Cash generated from operations	**111,108**	16,334

34 CASH FLOW INFORMATION *(Continued)*

(ii) Reconciliation of liabilities arising from financing activities

	Bank borrowings (Note 32) *RMB'000*	Notes payables (Note 28) *RMB'000*	Bonds (Note 29) *RMB'000*	Note (Note 30) *RMB'000*	Lease liabilities (Note 15) *RMB'000*	Total *RMB'000*
At 1 January 2019	59,906	86,578	65,202	102,420	7,135	321,241
Changes from cash flows:						
Proceeds from bank borrowings	96,697	–	–	–	–	96,697
Repayment of bank borrowings	(64,197)	–	–	–	–	(64,197)
Proceeds from notes payable	–	172,576	–	–	–	172,576
Repayment of notes payable	–	(174,804)	–	–	–	(174,804)
Redemption of bonds	–	–	(51,895)	–	–	(51,895)
Repayment of principal portion of the lease liabilities	–	–	–	–	(2,475)	(2,475)
Total changes from financing cash flows:	32,500	(2,228)	(51,895)	–	(2,475)	(24,098)
Exchange adjustments:	904	–	545	1,260	44	2,753
Other changes:						
Interest expenses (non-cash)	–	–	2,414	2,490	–	4,904
Additional of lease liabilities (non-cash)	–	–	–	–	2,423	2,423
Total other changes	904	–	2,959	3,750	2,467	10,080
At 31 December 2019	93,310	84,350	16,266	106,170	7,127	307,223

34 CASH FLOW INFORMATION *(Continued)*

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

	Bank borrowings (Note 32) *RMB'000*	Loans from a third party *RMB'000*	Notes payable (Note 28) *RMB'000*	Bonds (Note 29) *RMB'000*	Note (Note 30) *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
Other change:						
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

(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 31) were issued, as part of the consideration of the Ever Clever Acquisition.

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB2,423,000 and RMB2,423,000, respectively, in respect of lease arrangements for an office premise.

35 CONTINGENT LIABILITIES

As at 31 December 2019, the Group and the Company had no significant contingent liabilities (2018: Nil).

36 COMMITMENTS

(a) Capital commitments

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

	2019 *RMB'000*	2018 *RMB'000*
Property, plant and equipment	282	867
Equity interest investment – Sinopharm Jinyue Aerosol	–	48,450
Equity interest investment – Zhejiang Sinopharm Jinyue Aerosol	132,500	–
Total	132,782	49,317

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	(a)	15,295	15,295
Investment in a joint venture		63,184	59,868
Right-of-use assets		2,424	–
Trade and other receivables		511	–
Property, plant and equipment		5	295
		81,419	75,458
Current assets			
Trade and other receivables		4,565	7,752
Amounts due from subsidiaries		141,706	290,523
Short-term bank deposits		11,219	10,999
Cash and cash equivalents		1,096	13,462
		158,586	322,736
Total assets		240,005	398,194
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		3,901	3,901
Share premium		165,873	165,873
Other reserves	(b)	17,279	15,845
Accumulated losses	(c)	(174,244)	(60,823)
Total equity		12,809	124,796
LIABILITIES			
Non-current liabilities			
Bonds		–	15,102
Convertible bonds		33,426	31,456
Note		–	102,420
Lease liabilities		580	–
		34,006	148,978
Current liabilities			
Bonds		16,266	50,100
Note		106,170	–
Trade and other payables		10,835	17,374
Financial liabilities at FVTPL		2,472	2,040
Bank borrowings		55,810	54,906
Lease liabilities		1,637	–
		193,190	124,420
Total liabilities		227,196	273,398
Total equity and liabilities		240,005	398,194

The statement of financial position of the Company was approved by the Board of Directors on 8 May 2020 and was signed on its behalf.

Yu Yuerong
Director

Chen Baoyuan
Director

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

(a) The following is a list of the principal subsidiaries at 31 December 2019:

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 2018	–	11,775	11,775
Currency translation differences	–	4,070	4,070
At 31 December 2018 and 1 January 2019	–	15,845	15,845
Currency translation differences	–	1,434	1,434
At 31 December 2019	–	17,279	17,279

(c) Accumulated losses

	2019 ***RMB'000***	2018 *RMB'000*
Balance at 1 January	**(60,823)**	(17,417)
Losses for the year	**(113,421)**	(43,406)
Balance at 31 December	**(174,244)**	(60,823)

38 BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

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

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

Name of Directors	Fee		Salary		Employer's contribution to retirement scheme		Total	
	2019 ***RMB'000***	2018 *RMB'000*	**2019** ***RMB'000***	2018 *RMB'000*	**2019** ***RMB'000***	2018 *RMB'000*	**2019** ***RMB'000***	2018 *RMB'000*
Executive Directors								
Mr. Yu Yuerong								
– also the chief executive	**–**	–	**1,075**	1,014	**16**	15	**1,091**	1,029
Mr. Tan Xiangdong	**–**	–	**1,075**	1,014	**16**	15	**1,091**	1,029
Mr. Chen Baoyuan	**–**	–	**221**	193	**9**	9	**230**	202
Ms. Pan Yili	**–**	–	**140**	117	**11**	10	**151**	127
Mr. Wang Xiaobing	**–**	–	**270**	242	**16**	14	**286**	256
	–	–	**2,781**	2,580	**68**	63	**2,849**	2,643
Non-executive Director								
Mr. Tian Tingshan	**215**	203	**–**	–	**–**	–	**215**	203
Independent non-executive Directors								
Mr. Chan Yin Tsung	**161**	152	**–**	–	**–**	–	**161**	152
Mr. Ruan Lianfa	**142**	142	**–**	–	**–**	–	**142**	142
Ms. Yau Kit Kuen Jean	**161**	152	**–**	–	**–**	–	**161**	152
	464	446	**–**	–	**–**	–	**464**	446

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.

During the year, no discretionary bonus was paid to the directors.

38 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

There was no directors' retirement benefits, directors' termination benefits, consideration provided to third parties for making available directors' services and no loans, quasi-loans or other dealings entered into by the Group in favour of any directors, bodies corporate controlled by and entities connected with such directors during the year (2018: Nil).

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

39 SUBSEQUENT EVENTS

The outbreak of coronavirus disease 2019 ("COVID-19") since early 2020 has brought about uncertainties to the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact of COVID-19 on the Group's business and has commenced to put in place various measures to mitigate any potential impact. Based on the information currently available, the Directors believe that there has been no material adverse change in the financial position of the Group since 31 December 2019 and up to the date of this annual report. However, the actual impact may differ from such estimate as the situation continues to evolve and further information becomes available.

Save as disclosed above, the Group has no material events since 31 December 2019.

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				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**412,578**	405,047	395,741	274,232	266,010
Cost of sales	**(299,062)**	(309,907)	(307,346)	(196,990)	(200,275)
Gross profit	**113,516**	95,140	88,395	77,242	65,735
Other income and other gains – net	**7,494**	14,098	868	4,408	5,209
Selling expenses	**(25,024)**	(22,744)	(18,608)	(21,612)	(18,543)
Administrative expenses	**(47,026)**	(46,356)	(41,196)	(35,817)	(46,391)
Finance costs – net	**(20,054)**	(16,581)	(4,781)	3,557	1,806
Share of results of joint ventures	**2,653**	5,126	2,054	–	–
Share of results of associates	**(225)**	–	–	–	–
PROFIT BEFORE INCOME TAX	**31,334**	28,683	26,732	27,778	7,816
Income tax expense	**(7,582)**	(5,444)	(4,882)	(4,496)	(4,249)
PROFIT FOR THE YEAR	**23,752**	23,239	21,850	23,282	3,567

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**746,220**	796,210	640,670	438,414	412,621
TOTAL LIABILITIES	**419,095**	408,264	283,750	102,761	100,510
	327,125	387,946	356,920	335,653	312,111

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2018 and 2019 and the consolidated assets and liabilities of the Group as at 31 December 2018 and 2019 are set out on pages 79 to 191 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.