2020
ANNUAL REPORT
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)*
(resigned on 6 November 2020)
Mr. Chen Baoyuan
(resigned on 30 September 2020)
Ms. Pan Yili
Mr. Wang Xiaobing

NON-EXECUTIVE DIRECTOR

Mr. Tian Tingshan *(resigned on 18 June 2020)*

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

Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

INDEPENDENT AUDITOR

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

LEGAL ADVISOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Windward 3,
Regatta Office Park,
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

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

WEBSITE

www.ludaocn.com

STOCK CODE

2023

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of China Ludao Technology Company Limited (the "Company" and together with its subsidiaries, the "Group"), I would like to present to the shareholders of the Company the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the "Reporting Period").

During the Reporting Period, under the continuous impact of the COVID-19 epidemic, there was obvious downward pressure on the global economy. In China, due to the government's proper implementation of the epidemic prevention and control and the rapid resumption of plant production, the Group started to resume work and production as early as the beginning of 2020, in order to actively respond to the call and requirements of the Chinese government to deal with the epidemic, and also do its own epidemic prevention work well. In terms of business, the Group still adhered to the development concept of "Innovation, Green and Harmony", adjusted its strategy to actively respond to the situation, actively expanded the domestic market and developed new product lines on the basis of strengthening strategic customer cooperation, and timely added e-commerce companies and e-commerce sales channels according to the current environment. The Group has achieved a substantial growth in terms of CMS business and OBM business, with a growth of 35.1% and 56.7% respectively.

The year of 2020 was full of opportunities and challenges. The outbreak of COVID-19 has created strong demand in disinfection products. During the Reporting Period, the Group recorded an increase in sales of disinfection products and donated disinfection products to the Health Bureau of Sanmen, Zhejiang. Meanwhile, Zhejiang Ludao Technology Co., Ltd., a wholly-owned subsidiary of the Group, was also awarded the "Advanced Collective Certificate of Combating COVID-19 in Taizhou" (台州市抗擊新冠肺炎疫情先進集體証書) to recognise its efforts of fighting against the COVID-19 epidemic. In addition, Sinopharm Jinyue Aerosol Group Co. Ltd. became a subsidiary of the Group during the Reporting Period. In the future, it will strengthen and expand the Group's capacity through its research and development of medical and edible aerosol products, and expand its sales channels through its subordinate e-commerce companies, so as to lay a solid foundation for the sustainable growth of sales revenue.

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, 30 March 2021

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, other countries in the world were plagued by the COVID-19 epidemic and their production almost completely stagnated. Nevertheless, China continued to improve the business environment and introduce tax cuts and fee reduction policies, continuously adding new impetus to economic growth. The year of 2020 was full of opportunities and challenges for the Group. The outbreak of COVID-19 has created strong demand in disinfection products. By virtue of years of sound development foundation and continuous innovation capability, the Group has adjusted its strategy to actively respond to the situation and seize opportunities on the basis of strengthening strategic customer cooperation. The Group has achieved a substantial growth in terms of CMS business and OBM business, with a growth of 35.1% and 56.7% respectively.

During the Reporting Period, the Group increased its support for developing projects in respect of research and development, manufacturing and sales of disinfection, medical and edible aerosol products to facilitate projects to be carried out in accordance with the schedule.

In addition, the contribution to the Group from its investment in the clean energy and heating business newly introduced in 2017 has not met the expectation. The Board and the management of the Group will continue to follow up and consider the subsequent development and management of such investment project. Meanwhile, the Group will also identify 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 RMB566.3 million and RMB40.4 million respectively, representing an increase of approximately 37.3% and 70.2% respectively over 2019. Basic earnings per share was approximately RMB8 cents (2019: RMB5 cents).

Despite the rise in revenue, the Group's total comprehensive expenses for the year attributable to the owners of the Company was approximately RMB9.9 million for the Reporting Period, compared to the total comprehensive expenses of approximately RMB60.8 million for the prior year. The decrease is primarily attributable to the effect of approximately RMB16.5 million other comprehensive income from currency translation differences (2019: other comprehensive expense of approximately RMB2.8 million) and the decrease in fair value of equity instruments at fair value through other comprehensive income was reduced from RMB81.7 million in 2019 to RMB66.9 million in 2020 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 RMB502.7 million (2019: RMB372.0 million) representing an increase of approximately 35.1% as compared with last year.

During the Reporting Period, other countries in the world were plagued by the epidemic with their production almost completely stagnated. Facing huge demand at home and abroad, the Group's management and production capacity were subject to serious test. In spite of this, the Group adjusted its strategy and actively responded to the situation through strengthening its cooperation relationship with strategic customers on the basis of its steady development foundation and continuous innovation capability, thereby achieving a significant growth in the Company's CMS business as compared to last year. In order to cope with the epidemic, the Group actively undertook corporate social responsibility and contributed to the prevention and control of the epidemic; at the same time, the Group monitored the development of the epidemic in real time, strengthened cooperation with customers, actively responded to and resolved the adverse impacts brought by the epidemic, and strived to maintain and expand its current market share in order to continue to consolidate and strengthen its CMS business.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB63.6 million (2019: RMB40.6 million), representing an increase of approximately 56.7% as compared with last year.

As China took the lead in getting rid of the impact of the epidemic and resuming production and living in an orderly and comprehensive manner, the government has continuously improved the business environment and implemented large-scale tax cuts and fee reduction policies, continuously adding new impetus to economic recovery and growth. In quick response to the Government's call, the Group actively put into production and launched high-quality products that meet the market demand, thereby further consolidating the Group's development concept of "Innovation, Green and Harmony" in the mind of consumers. The Group's OBM business has also achieved a substantial growth during the year.

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB385.3 million (2019: RMB299.1 million), representing an increase of approximately 28.8% when compared to the prior year.

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB181.0 million (2019: RMB113.5 million), representing an increase of approximately 59.5% as compared to that of the prior year. The gross profit margin was approximately 32.0% (2019: 27.5%), such increase of approximately 4.5% was primarily due to effective cost control on production, changes of products mix, especially the increase in proportion of disinfecting products.

Net Profit

The Group's net profit for the Reporting Period was approximately RMB40.4 million (2019: RMB23.8 million), representing an increase of approximately 70.2% when compared to the prior year. The net profit margin of the Group improved from 5.8% in 2019 to 7.1% in 2020. Such result was primarily due to the continuing cost control of the Group.

Other comprehensive expenses for the year

The Group's other comprehensive expenses for the Reporting Period was approximately RMB50.4 million (2019: RMB84.6 million), representing a decrease of approximately 40.4% when compared to the prior year. The decrease was mainly attributable to the effect of currency translation differences and the reduction in decrease in fair value of equity instruments at fair value through other comprehensive income.

Expenses

Selling Expenses

Selling 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 RMB27.3 million (2019: RMB25.0 million), representing an increase of approximately 9.1% 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 RMB69.5 million (2019: RMB45.8 million), representing an increase of approximately 51.8% 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 RMB18.0 million (2019: net finance costs RMB20.1 million), representing a decrease of approximately RMB2.1 million as compared to that of the prior year. The decrease was primarily due to decrease in interest expense from bonds and convertible bonds.

Income tax expenses

The income tax expense of the Group for the Reporting Period was approximately RMB12.7 million, representing an increase of approximately RMB5.1 million as compared with RMB7.6 million in 2019. Effective income tax rate for the current period was approximately 23.9%, which was lower as compared with approximately 24.2% over 2019. The lower effective income tax rate was primarily due to the decrease in expenses not deductible for tax purpose.

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Property, Plant and Equipment

The Group's property, plant and equipment was approximately RMB281.1 million as at 31 December 2020 compared to approximately RMB95.5 million as at 31 December 2019. Such increase due to the Group acquired property, plant and equipment of approximately RMB31.3 million during the year ended 31 December 2020. In addition, the Group acquired 82% equity interest in Sinopharm Jinyue Aerosol, the Sinopharm Jinyue Aerosol Group became subsidiaries of the Group with addition of property, plant and equipment of approximately RMB163.6 million during the year ended 31 December 2020. Details and breakdown of the property, plant and equipment were set out in Note 16 to the consolidate financial statements. The capital expenditures were financed by the internal resources and the bank borrowings of the Group.

Prepayments for construction in progress, property, plant and equipment

As at 31 December 2020, the Group's had prepayments for construction in progress, property, plant and equipment was approximately RMB66.7 million (2019: nil). The increase was due to the advances made under construction contracts and purchases contracted related to development of production plant in the PRC.

Inventories

As at 31 December 2020, the inventories increased by 78.0% to approximately RMB68.8 million (2019: approximately RMB38.7 million). This was mainly due to the Group increased production capacity, resulting in an increase in finished goods at the end of the period.

Trade Receivables

As at 31 December 2020, trade receivables of approximately RMB5.6 million were past due, representing a decrease of approximately 84.7% as compared to the amount of RMB36.7 million as at 31 December 2019. The amount of the impairment provision was approximately RMB3,193,000 as at 31 December 2020 (2019: RMB1,272,000).

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2020 (2019: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the total assets of the Group amounted to approximately RMB859.6 million (2019: RMB746.2 million), and net current liabilities of approximately RMB133.8 million (2019: net current assets: RMB40.8 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 120%, which was higher than that of approximately 102% over 2019. The increase was primarily due to the increase of bank borrowings and decrease of equity during the year.

BORROWINGS

As at 31 December 2020, bank borrowings of the Group amounted to approximately RMB156.7 million (2019: RMB93.3 million) with full maturity until 2021.

CAPITAL STRUCTURE

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

CONTRACTUAL OBLIGATIONS

As at 31 December 2020, the Group had capital commitments of nil in respect of equity interest investments and approximately RMB250.9 million in respect of property, plant and equipment (2019: RMB132.5 million and RMB0.2 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 (2019: RMB0.4 million) and approximately RMB0.5 million later than one year and no later than five years (2019: RMB0.8 million).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: 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 2020, the Group had employed a total of 511 employees (2019: 469). 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 investment:–

Unlisted investment

		31 December 2020				31 December 2019			
Name of investee company	Nature of investment	Proportion of share capital owned	Cost *RMB'000*	Fair value *RMB'000*	Approximately % of total assets of the Group (by fair value)	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	–	–	25%	152,155	66,931	9%

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 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. During the year ended 31 December 2020, based on the findings from the investigation report performed by a legal adviser in the PRC, the Company noted that the heat supply operation of HGRL during the period from the years 2020 to 2021 has been taken over by another PRC entity appointed by the Huailai county government since September 2020. In addition, HGRL had involved in certain legal cases in relation to, in aggregation, significant amounts of overdue payables as at 31 December 2020. Based on the above situation, the Directors considered that the takeover may be sustained and the HGRL's financial position was in doubt and the fair value as at 31 December 2020 will be minimal. As at 31 December 2020, the decrease in fair value of the financial asset at FVOCI of approximately RMB66,931,000 (2019: RMB81,729,000) was recognised in other reserves.

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 ("EC Agreement"). In November 2020, the Group has taken actions to enforce the share charge over 2,500 shares in EC against the EC Vendor (the "EC Share Charge") and notified the EC Vendor of the same, subject to completion of the relevant registration and filing requirements. To recover the compensation for which the Company is entitled to hold the EC Vendor liable under the EC Agreement, the Company and the Purchaser acted as plaintiffs to commence the legal proceedings in the High Court of Hong Kong against the EC Vendor as defendant for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the EC Agreement to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfillment of the EC Profit Guarantee.

The Group will follow closely with the progress of the enforcement of the EC Share Charge and the legal proceedings against the EC Vendor and make further announcement when appropriate.

During the Reporting Period, the Group invested approximately RMB55.4 million, RMB0.2 million, nil, nil and RMB30.3 million in acquisition of subsidiaries, financial asset at fair value through profit or loss, investment in a joint venture, investment in an associate, and property, plant and equipment respectively (2019: nil, nil RMB4.5 million, RMB67.5 million and RMB2 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 2020, the net proceeds from the initial public offering had been applied as follows:

	Actual net proceeds	Amount utilised up to 31 December 2020	Balance unutilised balance as at 31 December 2020
	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	7	–
To fund the working capital requirement	6	6	–
Total	59	59	–

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the Reporting Period, however, on 10 October 2020, Zhejiang Ludao Technology Co., Ltd., a wholly-owned subsidiary of the Company (the "Sinopharm Purchaser") entered into a sale and purchase agreement with another shareholder of Sinopharm Jinyue Aerosol Group Co., Ltd (the "Target Company") (the "Sinopharm Vendor"), pursuant to which the Sinopharm Vendor agreed to sell and the Sinopharm Purchaser agreed to purchase 82% equity interest of the Target Company at the consideration of RMB56,550,000. The acquisition was completed on 10 October 2020 and the Group's equity interest in Sinopharm Jinyue Aerosol increased from 7% to 89%.

Further details of the acquisition are set out in the Company's announcement dated 19 April 2021.

OTHER INFORMATION

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 in Ever Clever Group Limited. 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 EC 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 EC 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 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.

In November 2020, the Group has taken actions to enforce the share charge over 2,500 shares in EC against the EC Vendor and notified the EC Vendor of the same, subject to completion of the relevant registration and filing requirements. To recover the compensation for which the Company is entitled to hold the EC Vendor liable under the EC Agreement, the Company and the Purchaser acted as plaintiffs to commence the legal proceedings in the High Court of Hong Kong against the EC Vendor as defendant for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the EC Agreement to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfillment of the EC Profit Guarantee.

The Group will follow closely with the progress of the enforcement of the EC Share Charge and the legal proceedings against the EC Vendor and make further announcement when appropriate.

Please refer to the announcements of the Company dated 29 November 2017, 5 December 2017, 23 August 2018, 4 September 2018, 25 October 2019, 17 January 2020, 20 August 2020, 16 September 2020 abd 2 November 2020.

FUND RAISING ACTIVITIES

The Company has not conducted any fund raising activity for the 12 months immediately before 31 December 2020 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 subsidiaries 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.

The Board is pleased to present this corporate governance report (the "Corporate Governance Report") for the year ended 31 December 2020.

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

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except code provision A.2.1, which is explained in relevant 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 Company is committed to achieving long term success of the Company and to safeguard the interests of the shareholders of the Company and other stakeholders. 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 three executive Directors and three independent non-executive Directors. The list of Directors and their biographies are set out under the section of "Corporate Information" and "Biographies of Directors and Senior Management" on page 30 and page 32 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 2020, 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.

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. Ruan Lianfa and Ms. Yau Kit Kuen Jean 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 two 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 independent non-executive Directors have been appointed for an initial term of three years. Each of the Company's 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 2020. 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 2020, the Directors including Mr. Yu Yuerong, Ms. Pan Yili, Mr. Wang Xiaobing, 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 responsibility for performing corporate governance duties 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 three 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 2020 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 2020 and 2019 are set out in note 43 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 2020 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)*	10/10	N/A	2/2	2/2	1/1
Mr. Tan Xiangdong *(Note 4)*	9/9	N/A	N/A	N/A	1/1
Mr. Chen Baoyuan *(Note 5)*	7/7	N/A	N/A	N/A	1/1
Ms. Pan Yili	10/10	N/A	N/A	N/A	1/1
Mr. Wang Xiaobing	10/10	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Tian Tingshan *(Note 6)*	4/4	N/A	N/A	N/A	0/1
Independent Non-Executive Directors					
Mr. Chan Yin Tsung *(Note 2)*	10/10	3/3	2/2	2/2	1/1
Mr. Ruan Lianfa	10/10	3/3	2/2	2/2	1/1
Ms. Yau Kit Kuen Jean *(Note 3)*	10/10	3/3	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
4. Resigned on 6 November 2020
5. Resigned on 30 September 2020
6. Resigned on 18 June 2020

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 2020.

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 2020, 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 RMB1.2 million and nil respectively.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2020 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 2020.

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 2020. 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 53, 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 24 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.

Ms. Pan Yili (潘伊莉), aged 45, was appointed as an executive Director of the Company on 16 September 2013. Ms. Pan has over 14 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 46, was appointed as an executive Director of the Company on 16 May 2014. Mr. Wang joined the Group in 2010 as the head of research and development department and was primarily responsible for overseeing the research and development centre and monitoring the quality control of the Group. He is currently the general manager of Zhejiang Ludao Technology Co., Ltd. ("Ludao PRC") and primarily responsible for the overall operation management. Prior to joining the Group, Mr. Wang had worked for a subsidiary of China Flavors and Fragrances Company Limited (the shares of which are listed on the Stock Exchange of Hong Kong Limited (stock code: 3318)) in various capacity including engineer, technical manager and general supervisor of the department for daily-use fragrance and flavors. He has professional and managerial experiences in research and development on daily chemical products and technical communication and services. Mr. Wang studied applied chemistry and graduated from the Nanchang Vocational Technology Normal University* (南昌職業技術師範學院) in July 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung (陳彥璁), aged 41, serves as an independent non-executive Director, the chairman of the audit committee and remuneration committee and a member of nomination committee of the Company since 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.

Mr. Chan has over 17 years of experience in initial public offering, corporate merger and acquisitions, restructuring, due diligence, audit, financial modelling and business valuation. From November 2003 to July 2010, he held relevant positions in Ernst & Young, KPMG Transaction Advisory Services and PricewaterhouseCoopers Corporate Finance. Mr. Chan served the investment banking division of Essence International Financial Holdings Limited from October 2010 to April 2011, and served the private equity department of the same company as a senior manager from June 2011 to July 2012.

Mr. Chan serves as an independent non-executive director and the chairman of the audit committee of of Beijing Jingneng Clean Energy Co., Limited (a company listed on the Main Board of the Stock Exchange, stock code: 579) since December 2016, and a member of the legal and compliance management committee of the same company since January 2021. Mr. Chan serves as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee and nomination committee of Bonny International Holding Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1906) since July 2020.

Mr. Ruan Lianfa (阮連法), aged 67, 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 52, 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 20 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 38, 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 and member of the Hong Kong Institute of Chartered Secretaries. Mr. Ho has over 14 years of experience in accounting and auditing.

Mr. Wang Yongfei (王永飛), aged 45, 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 24 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 2020 to 31 December 2020.

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 have 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 guidelines of 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 2020, 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 ISO14001:2004 to ISO14001:2015. Based on ISO14001:2015, 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 improving 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 carries 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 increase in air pollutant emission in 2020 was mainly attributable to the increase in manufacture and sale of aerosol products and related products 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	2020 Total	2019 Total
Nitrogen oxides (NO_x)	kg	937.15	0.29	1.57	**939.01**	468.73
Sulfur dioxide (SO_2)	kg	27.50	0.39	0.04	**27.93**	14.00
Particulate matter (PM)	kg	109.55	0.05	0.12	**109.72**	54.49

Greenhouse Gas ("GHG") Emission

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

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

In 2017, the Group activity acquired a group company 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. During the reporting period, purchased electricity was our major source of GHG emission. The increase in GHG emission in 2020 was mainly attributable to the increase in 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	2020 Total	2019 Total[2]
Scope 1[3]	tonnes of CO_{2-e}	216.89	1.65	6.68	**225.22**	180.04
Scope 2[4]	tonnes of CO_{2-e}	2,868.90	4,227.26	1.49	**7,097.65**	6,120.47
Total GHG emission	tonnes of CO_{2-e}	3,085.79	4,228.91	8.17	**7,322.87**	6,300.51
GHG emission intensity	Aerosol: tonnes of CO_{2-e}/ tonnes of production	0.047				Aerosol: 0.038
	Clean energy: tonnes of CO_{2-e}/m^2		0.013			Clean energy: 0.011
	Investment: tonnes of CO_{2-e}/m^2			0.004		Investment: 0.010

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 The data of 2019 has been restated for comparative purpose for adoption of the latest emission model for electricity consumption in Hong Kong and China.

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

4 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, 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 increase in hazardous wastes amount in 2020 was mainly attributable to the increase in manufacture and sale of aerosol and related products 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 2020 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 2020 are as follows:

Wastes disposal	Unit	Aerosol business	Clean energy business	Investment holding business	2020 Total	2019 Total
Hazardous waste	tonnes	9.88	–	–	**9.88**	8.92
Hazardous waste intensity	tonnes/tonnes of production	0.00015	–	–		Aerosol: 0.0002
Non-hazardous waste	tonnes	171.25	–	–	**171.25**	159.49
Non-hazardous waste intensity	tonnes/tonnes of production	0.0026	–	–		Aerosol: 0.0029

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 8,400 m^3 (2019: 12,000 m^3) of wastewater was treated and discharged, representing a decrease of approximately 30% (2019: an increase in 56%) 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 five types – (i) purchases electricity, (ii) petrol, (iii) diesel oil, (iv) liquefied petroleum gas, and (v) Towngas. 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 manufacture and sale of aerosol products and related products during the year.

The energy consumption of the Group in 2020 is summarised as follows:

Energy consumption	Unit	Aerosol business	Clean energy business	Investment holding business	2020 Total	2019 Total
Purchased electricity	MWh	3,565.62	4,367.00	2.00	**7,934.62**	6,686.33
Petrol	MWh	353.27	6.71	21.86	**381.84**	465.77
Diesel	MWh	415.39	–	–	**415.39**	167.17
Liquefied petroleum gas (LPG)	MWh	168.53	–	–	**168.53**	153.27
Towngas	MWh	–	–	0.09	**0.09**	1.16
Total energy consumption	MWh	4,502.81	4,373.71	23.95	**8,900.47**	7,473.70
Energy consumption intensity	Aerosol: MWh/tonnes of production	0.068				Aerosol: 0.066
	Clean energy: MWh/m^2		0.013			Clean energy: 0.011
	Investment: MWh/m^2			0.011		Investment: 0.027

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 decrease in water consumption in 2020 was mainly attributable to the implementation of water saving policy to conserve water during the year.

The water consumption of the Group during the reporting period is as follow:

Water	Unit	Aerosol business	Clean energy business	Investment holding business	2020 Total	2019 Total
Water consumption	m^3	119,432	–	38	**119,470**	170,785
Water consumption intensity	Aerosol: m^3/tonnes of production	1.80	–			Aerosol: 3.07
	Investment: m^3/m^2			0.018		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 2020 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 reporting year is summarized below:

Packaging materials	Unit	Aerosol business	Clean energy business	Investment holding business	2020 Total	2019 Total
Paper	tonnes	4,642.24	–	–	**4,642.24**	3,666.03
Plastic	tonnes	1,951.87	–	–	**1,951.87**	1,514.45
Metal	tonnes	12,425.43	–	–	**12,425.43**	9,176.96
Packaging materials intensity	tonnes/tonnes of production	0.29	–	–		Aerosol: 0.26

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. Besides, 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

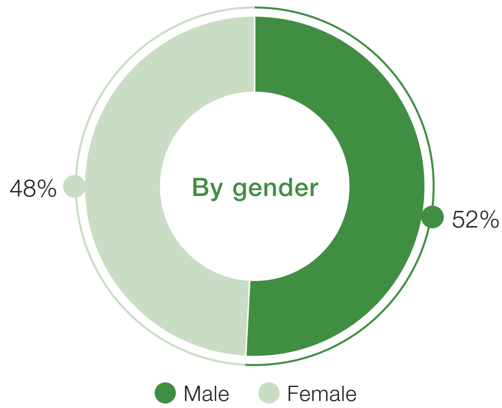
The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide a good working environment to employees where they can have a safe and healthy workplace to engage and perform to the satisfaction of the Group.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

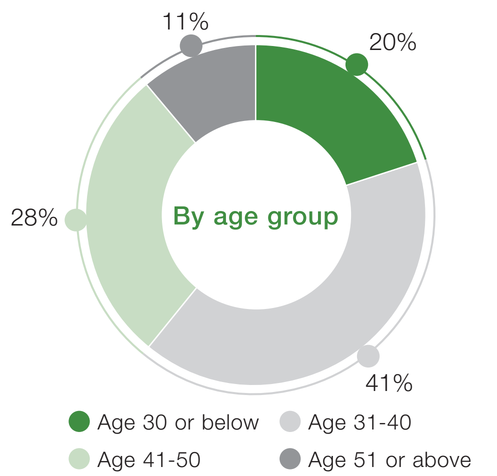
The Group respects the employees' rights. All of the employees of the Group are treated equally. Their employment, remuneration and promotion are not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.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

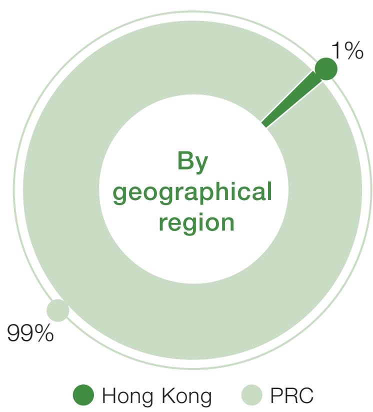
The Group strictly complies with the national laws and the system of the Group, and to refuse violation of business ethics. Throughout the year, the Group fully complied with all of the relevant laws and regulations in the countries and regions, such as the Employment Ordinance (Cap. 57), the Minimum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

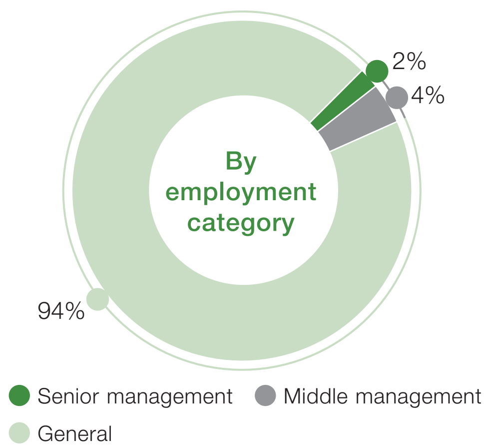
At the end of the reporting period, the Group has 511 employees located in the PRC and Hong Kong. Below is the employee breakdown by gender, age group, employment category, employment mode and geographical region.

2020









[5] The data for Year 2019 was not available.

Employee compositions	2020	2019
By gender		
• Male	**51%**	52%
• Female	**49%**	48%
By age group		
• Age 30 or below	**20%**	19%
• Age 31-40	**41%**	40%
• Age 41-50	**28%**	29%
• Age 51 or above	**11%**	12%
By geographical region		
• Hong Kong	**1%**	1%
• PRC	**99%**	99%
By employment category		
• Senior management	**2%**	2%
• Middle management	**4%**	6%
• General	**94%**	92%
By employment mode		
• Full-time	**100%**	N/A[5]
• Part-time	**–**	N/A[5]

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

	Turnover rates (%)	
Employment	**2020**	2019
By gender		
– Male	**42%**	51%
– Female	**51%**	49%
By age group		
– 30 years old or below	**96%**	100%
– 31-40 years old	**39%**	41%
– 41-50 years old	**32%**	30%
– 51 years old or above	**24%**	27%
By geographical region		
– PRC	**50%**	51%
– HK	**46%**	–
Overall	**46%**	50%

5 The data for Year 2019 was not available.

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 50,100 hours (2019: 30,800 hours) of internal and external training to its employees.

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

Training	Average training hours *(hours/employee)*		Percentage of employee trained *(%)*	
	2020	2019	**2020**	2019
By gender				
– Male	**94**	77	**50%**	50%
– Female	**102**	77	**50%**	50%
By employment category				
– Senior management	**61**	59	**2%**	2%
– Middle management	**85**	69	**4%**	5%
– General	**100**	78	**94%**	93%

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	
	2020	2019
Mainland China	**295**	248
– Zhejiang Province	**115**	105
– Shanghai	**56**	44
– Guangdong Province	**56**	47
– Jiangsu Province	**43**	32
– Beijing	**1**	1
– Hebei Province	**3**	2
– Anhui Province	**4**	4
– Fujian Province	**3**	3
– Liaoning Province	**1**	1
– Shandong Province	**7**	5
– Jiangxi Province	**2**	2
– Tianjin	**2**	1
– Henan Province	**1**	1
– Yunnan Province	**1**	–
Total	**295**	248

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 the 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. On 28 January 2020, the Group, through its subsidiary, Zhejiang Ludao Technology Co., Ltd. ("Ludao PRC"), donated 1,000 boxes of disinfecting products to Hygiene and Health Bureau of Sanmen County, Zhejiang Province (浙江省三門縣衛生健康局) for the local government to fight, prevent and control the COVID-19 Pandemic. Furthermore, the company was awarded the "Advanced Collective Certificate of Combating COVID-19 in Taizhou" (台州市抗擊新冠肺炎疫情先進集體証書) at the Commendation Conference on Summary of Combating COVID-19 Pandemic of the City (全市抗擊新冠肺炎疫情總結表彰大會).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
A. Environmental			
A1: Emissions			
General Disclosure		"Environmental Aspects"	38
KPI A1.1	The types of emissions and respective emissions data	"Emissions – Air Pollutants Emission"	39
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	"Emissions – Greenhouse Gas Emission"	40
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	"Emissions – Hazardous and Non-hazardous Wastes"	41-42
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity	"Emissions – Hazardous and Non-hazardous Wastes"	41-42
KPI A1.5	Description of measures to mitigate emissions and results achieved	"Emissions – Air Pollutants Emission" "Emissions – Greenhouse Gas Emission"	39-41
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	"Emissions – Hazardous and Non-hazardous Wastes" "Emissions – Wastewater"	41-43
A2: Use of Resources			
General Disclosure		"Use of Resources"	43
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	"Use of Resources – Energy"	43-44
KPI A2.2	Water consumption in total and intensity	"Use of Resources – Water"	45
KPI A2.3	Description of energy use efficiency initiatives and results achieved	"Use of Resources – Energy"	43-44
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	"Use of Resources – Water"	45
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	"Use of Resources – Packaging Materials"	45

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
A3: The Environment and Natural Resources			
General Disclosure		"The Environment and Natural Resources"	46
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	"The Environment and Natural Resources"	46
B. Social			
Employment and Labour Practices			
B1: Employment			
General Disclosure		"Employment"	46-48
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	"Employment"	48-49
KPI B1.2	Employee turnover rate by gender, age group and geographical region	"Employment"	48-49
B2: Health and safety			
General Disclosure		"Health and Safety"	49
KPI B2.1	Number and rate of work-related fatalities	–	–
KPI B2.2	Lost days due to work injury	–	–
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	"Health and Safety"	49

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
B3: Development and Training			
General Disclosure		"Development and Training"	50-51
KPI B3.1	The percentage of employee trained and employee category	"Development and Training"	50-51
KPI B3.2	The average training hours completed per employee by gender and employee category	"Development and Training"	50-51
B4: Labour Standards			
General Disclosure		"Labour Standards"	51
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	–	–
KPI B4.2	Description of steps taken to eliminate such practices when discovered	–	–
Operating Practices			
B5: Supply Chain Management			
General Disclosure		"Supply Chain Management"	52
KPI B5.1	Number of suppliers by geographical region	"Supply Chain Management"	52
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	–	–

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
B6: Product Responsibility			
General Disclosure		"Product Responsibility"	53
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	No product sold or shipped subject to recalls for safety and health reasons during the reporting period	–
KPI B6.2	Number of products and service-related complaints received and how they are dealt with	–	–
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	–	–
KPI B6.4	Description of quality assurance process and recall procedures	–	–
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	–	–
B7: Anti-corruption			
General Disclosure		"Anti-corruption"	53
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	No concluded legal cases were brought.	–
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	–	–
Community			
B8: Community Investment			
General Disclosure		"Community Investment"	53
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	–	–
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	"Community Investment"	53

Directors' Report

The Directors are pleased to present their report and the audited and consolidated financial statements for the year ended 31 December 2020.

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 42 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 2020, 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 2020 are set out in the consolidated statement of comprehensive income on page 76.

The Board resolved not to recommend any final dividend for the year ended 31 December 2020.

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 198 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 Friday, 21 May 2021 to Wednesday, 26 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM to be held on Wednesday, 26 May 2021, 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 Thursday, 20 May 2021.

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 26 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 42 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company does not have any reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands. As at 31 December 2019, the resources available for distribution of the Company of approximately RMB8.9 million. This includes the Company's share premium account of approximately RMB165.9 million as at 31 December 2020 (2019: 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:

	2020	2019
	%	%
Sales		
– the largest customer	**24.5**	29.1
– five largest customers combined	**64.8**	58.0
Purchases		
– the largest supplier	**21.6**	28.9
– five largest suppliers combined	**47.5**	49.0

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 2020.

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) (resigned on 6 November 2020)*
Mr. Chen Baoyuan *(resigned on 30 September 2020)*
Ms. Pan Yili
Mr. Wang Xiaobing

Non-executive Director
Mr. Tian Tingshan *(resigned on 18 June 2020)*

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. Ruan Lianfa and Ms. Yau Kit Kuen Jean 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 more than one-third of the Board.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' MATERIAL 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.

CHANGE IN DIRECTORS' INFORMATION

Mr. Chan Yin Tsung has been appointed as independent non-executive director of Bonny International Holding Limited (Stock code: 1906), whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, with effect from 1 July 2020.

Save as disclosed above, the Directors are not aware of any change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the publication of the annual report of the Company for the year ended 31 December 2020.

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 2020 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 2020, 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 1)*
Mr. Yu	–	231,728,000 *(Note 2)*	231,728,000	47.12%
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 2020.

(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 2020, 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 2020, 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 2020.

(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 2020.

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 are not exempt under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions under normal course of business are set out in note 39 to the Consolidated Financial Statements. These transactions did not fall under the definition of connected transactions or continuing connected transactions, which are required to comply with the disclosure requirements in accordance with Chapter 14A 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

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 2020 till the date of this report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2020 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, 30 March 2021

BDO

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

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

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

香港干諾道中111號
永安中心25樓

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

OPINION

We have audited the consolidated financial statements of China Ludao Technology Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 76 to 197, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 2020, the Group's trade receivables, gross and loss allowances thereon amounted to approximately RMB104,302,000 and RMB3,193,000 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;
- assessing the scope, expertise and independence of the independent professional valuer appointed by the Group;
- evaluating valuation methodologies and parameters adopted in ECLs assessment, with the assistance of our internal valuation specialist;

– 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.

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, actions taken to eliminate threats or safeguards applied.

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, 30 March 2021

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
		Year ended 31 December	
Revenue	6	**566,291**	412,578
Cost of sales		**(385,271)**	(299,062)
Gross profit		**181,020**	113,516
Other income	6	**5,925**	5,117
Other (losses)/gains – net	6	**(13,331)**	2,377
Selling expenses		**(27,289)**	(25,024)
Administrative expenses		**(69,475)**	(45,763)
Impairment loss on trade receivables, other receivables and deposits		**(2,130)**	(1,263)
Operating profit		**74,720**	48,960
Finance income	9	**1,939**	2,383
Finance costs	9	**(19,904)**	(22,437)
Finance costs – net	9	**(17,965)**	(20,054)
Share of results of joint ventures	13	**(2,013)**	2,653
Share of results of associates	14	**(1,632)**	(225)
Profit before income tax		**53,110**	31,334
Income tax expense	11	**(12,678)**	(7,582)
Profit for the year		**40,432**	23,752
Other comprehensive income/(expenses)			
Items that may be reclassified to profit or loss:			
Currency translation differences		**16,539**	(2,844)
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income	22	**(66,931)**	(81,729)
Other comprehensive expenses for the year, net of tax		**(50,392)**	(84,573)
Total comprehensive expenses for the year		**(9,960)**	(60,821)
Profit for the year attributable to:			
Owners of the company		**40,517**	23,752
Non-controlling interests		**(85)**	–
		40,432	23,752
Total comprehensive expenses for the year attributable to:			
Owners of the Company		**(9,875)**	(60,821)
Non-controlling interests		**(85)**	–
		(9,960)	(60,821)
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	12	**0.08**	0.05

The notes on pages 81 to 197 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Investment in a joint venture	13	**61,278**	63,184
Investments in associates	14	**–**	73,689
Property, plant and equipment	16	**281,071**	95,487
Right-of-use-assets	15	**51,722**	12,345
Investment property	17	**11,900**	12,600
Intangible assets	18	**257**	331
Deferred income tax assets	35	**73**	312
Financial asset at fair value through other comprehensive income ("FVOCI")	22	**–**	66,931
Trade and other receivables	20	**–**	511
Prepayments for construction in progress, property, plant and equipment	21	**66,660**	–
		472,961	325,390
Current assets			
Inventories	19	**68,832**	38,679
Trade and other receivables	20	**209,689**	197,130
Financial assets at fair value through profit or loss ("FVTPL")	22	**208**	9,132
Cash and cash equivalents	23	**53,708**	48,775
Short-term bank deposits	23	**–**	103,319
Pledged bank deposits	24	**54,197**	23,795
		386,634	420,830
Total assets		**859,595**	746,220
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	26	**3,901**	3,901
Share premium	26	**150,143**	150,143
Other reserves	28	**(66,766)**	(23,674)
Retained earnings		**229,972**	196,755
		317,250	327,125
Non-controlling interests		**9,526**	–
Total equity		**326,776**	327,125

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	*33*	**–**	33,426
Deferred government grants	*29*	**481**	609
Lease liabilities	*15*	**3,582**	3,946
Deferred income tax liabilities	*35*	**8,332**	1,054
		12,395	39,035
Current liabilities			
Trade and other payables	*30*	**213,898**	135,520
Contract liabilities	*6*	**26,506**	23,127
Current income tax liabilities		**613**	14
Financial liabilities at FVTPL	*33*	**–**	2,472
Bank borrowings	*34*	**156,665**	93,310
Bonds	*31*	**–**	16,266
Note	*32*	**84,019**	106,170
Convertible bonds	*33*	**34,296**	–
Lease liabilities	*15*	**4,427**	3,181
		520,424	380,060
Total liabilities		**532,819**	419,095
Total equity and liabilities		**859,595**	746,220

The notes on pages 81 to 197 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 76 to 197 were approved by the Board of Directors on 30 March 2021 and were signed on its behalf.

Yu Yuerong
Director

Wang Xiaobing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interest *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019	3,901	150,143	55,660	178,242	387,946	–	387,946
Comprehensive income							
Profit for the year	–	–	–	23,752	23,752	–	23,752
Changes in fair value of equity investments at FVOCI	–	–	(81,729)	–	(81,729)	–	(81,729)
Currency translation differences	–	–	(2,844)	–	(2,844)	–	(2,844)
Total comprehensive income	–	–	(84,573)	23,752	(60,821)	–	(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	–	327,125
Balance at 1 January 2020	3,901	150,143	(23,674)	196,755	327,125	–	327,125
Comprehensive income							
Profit for the year	–	–	–	40,517	40,517	(85)	40,432
Changes in fair value of equity investments at FVOCI	–	–	(66,931)	–	(66,931)	–	(66,931)
Currency translation differences	–	–	16,539	–	16,539	–	16,539
Total comprehensive income	–	–	(50,392)	40,517	(9,875)	(85)	(9,960)
Step acquisition from associates to subsidiaries (Note 38)	–	–	–	–	–	9,611	9,611
Transaction with owners							
Profit appropriation	–	–	7,300	(7,300)	–	–	–
Balance at 31 December 2020	3,901	150,143	(66,766)	229,972	317,250	9,526	326,776

The notes on pages 81 to 197 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	*37*	**40,393**	111,108
Interest paid		**(16,014)**	(20,885)
Income tax paid		**(10,792)**	(8,651)
Net cash generated from operating activities		**13,587**	81,572
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	*38*	**(55,379)**	–
Purchase of financial assets at FVTPL		**(200)**	–
Payment for capital injection in a joint venture		**–**	(4,467)
Payment for acquisition of an associate		**–**	(67,500)
Purchase of property, plant and equipment		**(30,030)**	(2,039)
Payment for right-of-use assets		**–**	(231)
Proceeds from disposals of property, plant and equipment		**–**	582
Purchase of intangible assets		**–**	(136)
Increase of pledged bank deposits		**(30,402)**	(6,471)
Decrease of short-term bank deposits		**103,231**	26
Interest received		**1,939**	2,383
Prepayment for construction in progress, property, plant and equipment		**(66,660)**	–
Net cash used in investing activities		**(77,501)**	(77,853)
Cash flows from financing activities			
Repayments of principal portion of the lease liabilities		**(3,428)**	(2,475)
Repayments of note		**(17,775)**	–
Proceeds from bank borrowings		**188,267**	96,697
Repayments of bank borrowings		**(119,613)**	(64,197)
Redemption of bonds		**(16,138)**	(51,895)
Proceeds from notes payables		**194,507**	172,576
Repayments of notes payables		**(161,009)**	(174,804)
Net cash generated from/(used in) financing activities		**64,811**	(24,098)
Net increase/(decrease) in cash and cash equivalents		**897**	(20,379)
Cash and cash equivalents at beginning of the year	*23*	**48,775**	69,538
Currency translation differences		**4,036**	(384)
Cash and cash equivalents at end of the year	*23*	**53,708**	48,775

The notes on pages 81 to 197 are an integral part of these 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 Windward 3, Regatta Office Park, 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 30 March 2021.

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 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. 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.

2.2 Basis of measurement and going concern assumption

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.

As at 31 December 2020, the Group recorded net current liabilities of approximately RMB133,790,000. The net current liabilities was mainly attributable to the i) increase in bank borrowings for the acquisition of property, plant and equipment; and ii) convertible bonds (the "Convertible Bonds") with fair value of approximately RMB34,296,000 matured on 28 March 2021.

The Convertible Bonds were classified as non-current liabilities as at 31 December 2019 and reclassified to current liabilities during the Reporting Period. Pursuant to the sale and purchase agreement dated 29 November 2017 (the "Sale and Purchase Agreement"), the Group issued the Convertible Bonds with an aggregate principal amount of RMB32,000,000 to the Perfect Century Group Limited (the "EC Vendor") as part of the consideration for the acquisition of 25% equity interest of Ever Clever Group Limited ("Ever Clever"). Since the EC Vendor has failed to fulfil its obligation to deliver the audited financial statements of 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company) (the "HGRL") in accordance with the Sale and Purchase Agreement, on 2 November 2020, the Company acted as a plaintiff to commence the legal proceedings in the High Court of Hong Kong by filing with a writ of summons against the EC Vendor for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the Sale and Purchase Agreement to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfilment of the profit guarantee (Note 22B(i)). Despite that no final judgement has been delivered in respect of cancellation of the aforesaid convertible bonds, the directors of the Company are of the view that the Company is in a strong position to cancel the Convertible Bonds given the EC Vendor breach its obligations under the Sale and Purchase Agreement to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfilment of the profit guarantee for all three financial years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of measurement and going concern assumption *(Continued)*

Nevertheless, in view of the circumstances, the Directors have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

(a) The management of the Group has been endeavouring to improve the Group's operating cash flows through implementing various cost control measures;

(b) The Group has been actively negotiating with the lending banks and the note holder for the renewal of banking facilities upon maturity and extension of repayment of the note maturing on 30 May 2021, positive feedbacks were obtained from some of those lenders;

(c) The Group has unutilised banking facilities of approximately RMB52,908,000 as at 31 December 2020; and

(d) Subsequent to the Reporting Period, the Group has further obtained credit loan facilities of HKD60,000,000 (equivalent to approximately RMB50,558,000) from a licensed money lender in Hong Kong.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the reporting date taking into account the above-mentioned plans and measures, having considered the cancellation of the aforesaid Convertible Bonds, the Group's bank balance as at 31 December 2020 and the Group's continuous net cash inflows from future operations and/or other sources, the Directors of the Company were of the opinion that the Group has sufficient cash resources to satisfy future working capital and other financing requirements as and when they fall due in the next twelve months from the reporting date. Accordingly, the consolidated financial statement has been prepared on the basis that the Group will continue as a going concern.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs

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 2019 except for the changes mentioned below.

(a) Adoption of new/revised HKFRSs – effective 1 January 2020

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

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKAS 39, HKFRS 7 and HKFRS 9, Interest Rate Benchmark Reform

None of these new or amended HKFRSs have any significant impact on the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(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	Classification of Liabilities as Current or Non-current[4]
HK Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to HKAS 16	Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
HKFRS 17	Insurance Contracts[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to HKFRS 17	Insurance Contract[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling a contract' comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Company do not anticipate that the application of this standard in the future will have an impact on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

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

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transaction arise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

Annual Improvements to HKFRSs 2018-2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation

2.4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.1 Business combination and basis of consolidation *(Continued)*

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Changes in the Group's interests in a subsidiary that do not result in a loss of control of the subsidiary are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists, the Company considers all relevant facts and circumstances, including:

- the size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- substantive potential voting rights held by the Company and other parties who hold voting rights;
- other contractual arrangements; and
- historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.3 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, all amounts previously recognised in other comprehensive income in relation to that associate are recognised on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.3 *Associates* *(Continued)*

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest it that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

2.4.4 *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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.4 Joint arrangements (Continued)

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.

2.4.5 Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree over the fair value of the identifiable assets and liabilities measured as at the acquisition date.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss as a gain on bargain purchase on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount, and whenever there is an indication that the unit may be impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.5 Goodwill (Continued)

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro-rata basis on the carrying amount of each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

2.4.6 Separate financial statements

Investments in subsidiaries (see Note 42 (a)) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 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.

2.6 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.

(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 (losses)/gains – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(c) Group companies

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

(i) assets and liabilities for each 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.

2.7 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment *(Continued)*

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.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate classes of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 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 fair values are recorded in the statement of profit or loss as part of a valuation gain or loss in 'other (losses)/gains – net'.

2.9 Intangible assets (other than goodwill)

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.

The amortisation expense is recognised in profit or loss and included in administrative expenses. The useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 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)*

2.11 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
- goodwill and other 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 or cash generating unit (see note 2.4.5), 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)*

2.12 Financial instruments

2.12.1 Financial assets

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

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

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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial instruments *(Continued)*

2.12.1 Financial assets (Continued)

Equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance being ECL provision in accordance with HKFRS 9; and (ii) the amount initially recognised less, when appropriate, cumulative amount of income recognised in accordance with HKFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial instruments *(Continued)*

2.12.1 Financial assets (Continued)

Financial guarantee contracts (Continued)

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the carrying amount of the guarantees. To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2.12.2 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial instruments *(Continued)*

2.12.2 Initial recognition and measurement (Continued)

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.

2.12.3 Impairment loss on financial assets

The Group recognises loss allowances for ECLs on trade receivables, other receivable and deposits, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial instruments *(Continued)*

2.12.3 Impairment loss on financial assets (Continued)

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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial instruments *(Continued)*

2.12.4 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.

2.12.5 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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial instruments *(Continued)*

2.12.5 Convertible bonds (Continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method.

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.

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 which represents the fair value of the convertible bonds as a whole over the amount initially recognised as the derivative component which represents the fair value of conversion option 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial instruments *(Continued)*

2.12.5 Convertible bonds (Continued)

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.

2.12.6 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.

2.12.7 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.

2.12.8 Equity instruments

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

2.12.9 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 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.

2.14 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.

2.15 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 Borrowings

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 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.

2.18 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.

2.19 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(b) Deferred income tax (Continued)

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.

(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.

2.20 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition

2.21.1 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

2.21.1 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 0-180 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 0-180 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 2.22.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

2.21.2 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.

2.21.3 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)*

2.22 Leases

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Leases *(Continued)*

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.

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)*

2.23 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Related parties *(Continued)*

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) *Foreign exchange risk (Continued)*

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	
	2020	2019
	RMB'000	*RMB'000*
Assets		
HKD and USD	**133,685**	123,598
Liabilities		
HKD and USD	**167,746**	182,731

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	
	2020	2019
	RMB'000	*RMB'000*
5% appreciation in exchange rate against HKD and USD		
Increase/(decrease) in the profit for the year	**1,703**	2,957

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) *Price risk*

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

(c) *Credit risk*

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

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

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.

Except for trade receivables, none of the Group's financial assets are secured by collateral or other credit enhancements.

As at 31 December 2020, the Group had certain concentration of credit risk as 77% (2019: 78%) 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 2020:

Trade receivables:

2020	**Expected loss rate** *(%)*	**Gross carrying amount** *(RMB'000)*	**Loss allowance** *(RMB'000)*
Current (not past due)	0.77	98,710	762
1-30 days past due	2.86	84	2
31-90 days past due	2.72	1,737	47
91-365 days past due	22.93	182	42
More than 365 days past due	65.21	3,589	2,340
		104,302	3,193

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
		126,612	1,272

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 other receivables and deposits as at 31 December 2020:

Other receivables and deposits:

	RMB'000
Balance as at 31 December 2020	
Other receivables	214
Deposits	14
Balance as at 31 December 2019	
Other receivables	94
Deposits	–

For other receivables and deposits, 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

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.

	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 2020				
Trade and other payables (excluding other taxes payable, payroll payable)	86,935	122,652	–	209,587
Bank borrowings	55,365	103,762	–	159,127
Bonds	–	–	–	–
Note	–	87,951	–	87,951
Convertible bonds	34,329	–	–	34,329
Lease liabilities	2,677	2,124	3,745	8,546
	179,306	316,489	3,745	499,540
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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 2020 and 2019, the Directors of the Company 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. Accordingly, no sensitivity analysis on interest rate risk was presented.

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	
	2020	2019
	RMB'000	*RMB'000*
Bank borrowings	**156,665**	93,310
Notes payable	**117,848**	84,350
Bonds	**–**	16,266
Note	**84,019**	106,170
Convertible bonds	**34,296**	33,426
Total borrowings	**392,828**	333,522
Total equity	**326,776**	327,125
Gearing ratio	**120%**	102%

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 2020	*Note*	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial asset at FVOCI					
Unlisted equity securities	*22*	–	–	–	–
Financial assets at FVTPL					
Profit guarantee	*22*	–	–	–	–
Unlisted equity securities	*22*	–	–	208	208
Financial assets at FVTPL		–	–	208	208
Total financial assets		–	–	208	208
Financial liabilities at FVTPL					
Derivative component of convertible bonds	*33*	–	–	–	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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	*22*	–	–	66,931	66,931
Financial asset at FVTPL					
Profit guarantee	*22*	–	–	9,132	9,132
Total financial assets		–	–	76,063	76,063
Financial liabilities at FVTPL					
Derivative component of convertible bonds	*33*	–	–	2,472	2,472

During the year ended 31 December 2020, 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 2020 and 31 December 2019:

	Financial assets at FVOCI	Financial assets at FVTPL		Financial liabilities at FVTPL
	Unlisted equity securities *RMB'000*	Profit guarantee *RMB'000*	Unlisted equity securities *RMB'000*	Derivative component of convertible bonds *RMB'000*
At 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 and 1 January 2020	66,931	9,132	–	2,472
Additions	–	–	200	–
Changes recognised in other gains in profit or loss	–	(9,132)	8	(2,472)
Losses recognised in other comprehensive income	(66,931)	–	–	–
At 31 December 2020	–	–	208	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

See Note 17 for disclosures of the investment property that is measured at fair value.

Fair values of Financial asset at FVOCI and FVTPL have been measured as described in Note 22.

Fair value of derivative component of convertible bonds have been measured as described in Note 33.

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, other receivables and deposits

The provision for ECLs 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 2020, the provision for impairment on trade receivables, other receivables and deposits are RMB3,193,000 (2019: RMB1,272,000), RMB214,000 (2019: RMB94,000) and RMB14,000 (2019: RMB Nil) respectively. The Group makes allowances on trade receivables, other receivables and deposits 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 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 the Group which owns 25% of equity interest does not entitle to request for a meeting to elect directors of Ever Clever in accordance with the memorandum and articles of association of Ever Clever, 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. Management made an irrevocable election to designate this investment at FVOCI, it is subsequently measured at fair value and change in fair value is recognised in other comprehensive income.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(f) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period as they occur.

The Group measures a number of items at fair value:

- Investment property (Note 17);
- Financial assets at FVOCI and FVTPL (Note 22); and
- Financial liabilities at FVTPL (Note 33)

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(g) PRC land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. However, the implementation and settlement of LAT varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its LAT calculation and payments with local tax authorities in the PRC for most of its properties. Accordingly, judgment is required in determining the amount of the land appreciation taxes. The Group recognised LAT based on management's best estimates according to the interpretation of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and tax provisions in the periods in which such taxes have been finalised with local tax authorities.

(h) Impairment assessment of interest in Illustrious Success (as defined in note 13) and its subsidiaries ("the Illustrious Group")

Determining whether interest in Illustrious Group is impaired requires an estimation of the recoverable amount of the interest in the Illustrious Group which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate its share of the present value of the future cash flows expected to be generated by the Illustrious Group based on the cash flows from the operations of the Illustrious Group taking into account the estimated future cash flows expected to arise from the operation of the Illustrious Group and a suitable discount rate with reference to comparable companies. Where the value in use is less than or more than expected or upon the management's revision of estimated cash flows for the purpose of determining the value in use due to changes in conditions, facts and circumstances, an additional impairment loss or reversal of impairment loss may arise.

As at 31 December 2020, the carrying amount of the Group's interest in the Illustrious Group was approximately RMB61,278,000. No impairment loss was recognised in profit or loss during the year.

5 SEGMENT INFORMATION

The executive directors of the Company ("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 external customers

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**224,482**	136,752
United States of America	**185,939**	172,170
Europe	**837**	3,244
Japan	**6,879**	9,897
Chile	**131,631**	70,664
Others	**16,523**	19,851
	566,291	412,578

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 2020 and 2019 consist of right-of-use assets, 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:

	2020 *RMB'000*	2019 *RMB'000*
Customer A	**138,835**	120,143
Customer B	**130,138**	69,872
Customer C	**42,666**	31,186
Customer D	**41,825**	n/a

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 (LOSSES)/GAINS – NET

	2020 *RMB'000*	2019 *RMB'000*
Revenue		
Sales of goods	**566,291**	412,578
Other income		
Government grants *(Note i)*	**4,395**	2,984
Technical service fee	**195**	336
Rental income	**348**	354
Others	**987**	1,443
	5,925	5,117
Other (losses)/gains – net		
Foreign exchange (loss)/gain *(Note 10)*	**(13,255)**	1,293
Fair value (loss)/gain on investment property *(Note 17)*	**(700)**	900
Change in fair value of financial liabilities at FVTPL *(Note 33)*	**2,472**	(432)
Change in fair value of financial assets at FVTPL	**(9,124)**	484
Gain on bargaining purchase *(Note 38)*	**15,098**	–
Loss on step acquisition *(Note 38)*	**(9,179)**	–
Gain on non-substantial modification *(Note 32)*	**1,193**	–
Others	**164**	132
	(13,331)	2,377

Note:

(i) Included in profit or loss is HKD203,000 (equivalent to approximately RMB180,000) (2019: Nil) of government grants obtained from Employment Support Scheme ("ESS") under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group's employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group also received unconditional discretionary grants from the relevant PRC government authorities in support of enterprise operating in specified industry.

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

Revenue and other income from contract with customers disaggregated revenue information

	2020 ***RMB'000***	2019 *RMB'000*
Revenue and other income under HKFRS 15		
At point in time		
– Sales of goods	**566,291**	412,578
Over time		
– Technical service fee	**195**	336
	566,486	412,914

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

	As at **31 December 2020** ***RMB'000***	As at 31 December 2019 *RMB'000*
Contract liabilities	**26,506**	23,127

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

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

Movements in contract liabilities

	RMB'000
Balance at 1 January 2019	9,583
Revenue recognised that was included in the contract liabilities balance at the beginning of year	(7,980)
Reclassification of opening contract liabilities to other payables due to cancellation of sale orders 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 and 1 January 2020	23,127
Revenue recognised that was included in the contract liabilities balance at the beginning of year	(14,147)
Reclassification of opening contract liabilities to other payables due to cancellation of sale orders during the year	(2,135)
Increase due to cash received, excluding amount recognised as revenue during the year	19,661
Balance at 31 December 2020	26,506

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:

	2020 *RMB'000*	2019 *RMB'000*
Depreciation and amortisation *(Note 15,16,18)*	**13,319**	12,383
Employee benefit expenses, excluding amount included in research and development costs	**45,527**	37,416
Raw materials used	**335,244**	264,543
Changes in inventories of finished goods and work in progress	**17,706**	7,315
Water and electricity expenditures	**4,115**	4,050
Transportation and travelling expenses	**18,725**	18,892
Telecommunication expenses	**509**	532
Advertising expenses	**587**	560
Other tax expenses	**2,666**	2,876
Research and development costs		
– Employee benefit expenses	**8,310**	7,624
– Materials and others, excluding depreciation and amortisation	**21,266**	2,677
Auditor's remuneration		
– Audit services	**1,445**	1,318
Entertainment expenses	**1,342**	1,497
Short-term lease expense *(Note 15)*	**196**	999
Low value lease expense *(Note 15)*	**213**	–
Professional services fees	**2,721**	2,392
Inventories written off	**491**	441
Other expenses	**7,653**	4,334
	482,035	369,849

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2020 *RMB'000*	2019 *RMB'000*
Wages, allowances and bonus	**47,789**	40,604
Retirement scheme contribution	**3,402**	2,421
Others	**2,646**	2,015
	53,837	45,040

(a) Pensions – defined contribution plans

Ludao PRC makes defined contribution to retirement schemes managed by local governments in the PRC based on 22% (2019: 22%) of the basic salary of eligible staff during the year ended 31 December 2020. 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 (2019: three) directors whose emoluments are reflected in the analysis in Note 43. The emoluments paid to the remaining two (2019: two) individuals during the year are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,046**	1,053
Retirement scheme contribution	**31**	31
	1,077	1,084

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

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

	Number of individuals	
	2020	2019
Emoluments bands		
Nil to HKD1,000,000	**2**	2

9 FINANCE COSTS – NET

	2020	2019
	RMB'000	*RMB'000*
Interest income	**1,939**	2,383
Foreign exchange (loss)/gain *(Note 10)*	**(1,372)**	534
Interest expense		
– Bonds	**(625)**	(5,270)
– Bank borrowings	**(4,989)**	(3,422)
– Interest on lease liabilities	**(318)**	(320)
– Note instrument	**(11,730)**	(11,989)
– Convertible bonds *(Note 33)*	**(870)**	(1,970)
	(19,904)	(22,437)
Finance costs – net	**(17,965)**	(20,054)

10 TOTAL FOREIGN EXCHANGE

	2020 *RMB'000*	2019 *RMB'000*
Net finance (expense)/income *(Note 9)*	**(1,372)**	534
Other (losses)/gains – net *(Note 6)*	**(13,255)**	1,293
Total	**(14,627)**	1,827

11 INCOME TAX EXPENSE

	2020 *RMB'000*	2019 *RMB'000*
Current income tax:		
– PRC Corporate income tax	**10,729**	7,458
Deferred income tax *(Note 35)*:		
– PRC Corporate income tax	**112**	124
– PRC LAT	**1,837**	–
	1,949	124
	12,678	7,582

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 (2019: 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 4 December 2019 to 3 December 2022.

11 INCOME TAX EXPENSE *(Continued)*

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including the cost of land use rights and all property development expenditures.

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:

	2020	2019
	RMB'000	*RMB'000*
Profit before income tax	**53,110**	31,334
Add/(less): share of results of joint ventures	**2,013**	(2,653)
Add: share of results of associates	**1,632**	225
	56,755	28,906
Tax calculated at the tax rate of 15% (2019: 15%)	**8,513**	4,336
Effect of different tax rates of subsidiaries	**(1,812)**	–
Additional research and development deductible expenses	**(2,519)**	(1,751)
LAT deductible for calculation of income tax purpose	**(276)**	–
Effects of income not taxable and expenses not deductible for tax purposes and others	**8,772**	4,997
	12,678	7,582

Pursuant to the 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 2020, the Group did not recognise deferred tax liabilities of RMB33,217,000 (2019: RMB26,646,700) on RMB332,166,000 (2019: RMB266,467,000) 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.

	2020	2019
Profit attributable to owners of the Company (RMB'000)	**40,517**	23,752
Weighted average number of ordinary shares in issue (thousands of shares)	**491,800**	491,800
Basic and diluted earnings per share (RMB per share)	**0.08**	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 2020 and 2019, 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 2020 and 2019, as they are anti-dilutive.

13 INVESTMENT IN A JOINT VENTURE

	2020 *RMB'000*	2019 *RMB'000*
As at 1 January	**63,184**	62,418
Additions	**–**	4,467
Reclassification *(Note ii)*	**–**	(6,414)
Share of results	**(2,013)**	2,653
Exchange adjustment	**107**	60
As at 31 December	**61,278**	63,184

As at 31 December 2020, the Group had interest in the following joint venture which is accounted for using equity method in the consolidated financial statements, are as follows:

Name	Form of business structure	Place of incorporation/ establishment	Issued share capital/paid-up registered capital	Equity interest held 2020	Equity interest held 2019	Principal activities and place of operation
Illustrious Success Limited ("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	RMB68,550,000	**–**	7%	Research and development, manufacture and sale of medical and edible aerosol product, the PRC.

13 INVESTMENT IN 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 Aerosol. Sinopharm Jinyue Aerosol 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 to Sinopharm Jinyue Aerosol before it was reclassified from a joint venture to an associate of the Group (Note 14).

During the year ended 31 December 2020, the Group acquired 82% equity interest in Sinopharm Jinyue Aerosol. Based on the assessment performed by the Group, it was accounted for business combination. Thereafter, Sinopharm Jinyue Aerosol became a subsidiary of the Group. Detailed information is set out in Note 38.

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

Summarised financial information for Illustrious Success:

	2020 *RMB'000*	2019 *RMB'000*
Current assets		
Cash and cash equivalents	**4,486**	1,964
Trade and other receivables	**14,575**	18,675
Total current assets	**19,061**	20,639
Non-current assets		
Payments for land use rights	**1,629**	1,672
Property, plant and equipment	**20,837**	23,718
Intangible asset (a)	**44,356**	46,207
Total non-current assets	**66,822**	71,597
Current liabilities		
Trade and other payables	**12,459**	12,604
Current income tax liabilities	**2,477**	3,426
Total current liabilities	**14,936**	16,030
Non-current liabilities		
Deferred income tax liabilities	**10,672**	11,131
Total non-current liabilities	**10,672**	11,131
Reconciliation to the Group's interest in the joint venture:		
Net assets	**60,275**	65,075
Less: Non-controlling interests	**(14,002)**	(14,955)
Net assets attributable to owners of the joint venture	**46,273**	50,120

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

(a) The intangible asset represented customer contracts acquired at acquisition of the joint venture. Customer contracts are recognised at their fair value of RMB51,000,000 at the date of acquisition and are subsequently amortised on a units of production basis based on the timing of the contracts over their useful lives of approximately 28 years.

	2020	2019
	RMB'000	*RMB'000*
Revenue	**15,217**	15,917
Depreciation and amortisation	**(4,775)**	(3,915)
Other operating expense	**(16,212)**	(1,508)
Interest income	**5**	–
Income tax credit/(expense)	**964**	(2,213)
(Loss)/profit from operations	**(4,801)**	8,281
Other comprehensive income/(expenses)	**2**	(4)
Total comprehensive (expenses)/income	**(4,799)**	8,277

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:

	2020	2019
	RMB'000	*RMB'000*
Net assets attributable to owners of Illustrious Success	**46,273**	50,120
Group's share in %	**50%**	50%
Group's share	**23,137**	25,060
Goodwill and exchange adjustment	**38,141**	38,124
Carrying amount	**61,278**	63,184

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

Reconciliation of summarised financial information *(Continued)*

As at 31 December 2020, the management of the Group carried out an impairment review on the carrying amount of its investment in joint venture by comparing the recoverable amount estimated using value in use with the carrying amount of the investment in Illustrious Success. In determining the value in use of the investment in Illustrious Success, the Group estimated the present value of the estimated future cash flows expected to be generated by the joint venture, including cash flows from the operations of the joint venture and estimated terminal value, calculated at a discount rate of 12% (2019: 12%). Based on the assessment, the recoverable amount of the investment in joint venture is higher than its carrying amount. Hence, no impairment on the investment in joint venture was recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income for the year.

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

	2020 ***RMB'000***	**2019** *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)	**–**	–

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.

14 INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	–	73,689

Name	Form of business structure	Place of establishment	Paid-up registered Capital	Equity interest held 2020	Equity interest held 2019	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*) ("Zhejiang Sinopharm Jinyue Aerosol") *(Note i and Note iii)*	Limited liability company	The PRC	RMB134,000,000	**93.4%***	44.2%	Research and development on aerosol and cosmetic products, provide consultancy service on aerosol and cosmetic products, manufacturing and selling aerosol and related products, the PRC
Sinopharm Jinyue Aerosol *(Note ii and Note iii)*	Limited liability company	The PRC	RMB68,550,000	**89%***	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 considered the Group had the power to exercise significant influence and classified Sinopharm Jinyue Aerosol as an associate starting from 4 December 2019, until it became a subsidiary of the Group as at 10 October 2020.

*** Sinopharm Jinyue Aerosol and Zhejiang Sinopharm Jinyue Aerosol became subsidiaries of the Group during the year ended 31 December 2020.

Notes:

(i) During the year ended 31 December 2019, the Group injected capital of RMB67,500,000 in 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.

(iii) During the year ended 31 December 2020, the Group acquired 82% equity interest in Sinopharm Jinyue Aerosol. Based on the assessment preformed by the Group, it was accounted for business combination. Thereafter, Sinopharm Jinyue Aerosol and its subsidiaries, including Zhejiang Sinopharm Jinyue Aerosol (together the "Sinopharm Jinyue Aerosol Group"), became subsidiaries of the Group (the "Step Acquisition"). Detailed information is set out in Note 38.

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	121,494
Non-current assets	33,656
Current liabilities	(1,255)
Non-current liabilities	(1,630)
Net assets	152,265
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	**24,253**
Non-current assets	**71,754**
Current liabilities	**(4,750)**
Non-current liabilities	**–**
Net assets	**91,257**
Group's share of the net assets of the associate	**6,388**
Revenue	**–**
Loss from continuing operations	**–**
Other comprehensive income	**–**
Total comprehensive expenses	**–**

15 LEASES

The Group as a lessee

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

(a) 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*	**Office premises, plant 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 and 1 January 2020	4,938	7,407	12,345
Addition	–	360	360
Disposal	–	(847)	(847)
Additions through Step Acquisition from associates to subsidiaries *(Note 38)*	39,000	3,998	42,998
Depreciation *(Note 7)*	(790)	(3,132)	(3,922)
Exchange adjustment	–	(59)	(59)
Eliminated on disposal	–	847	847
At 31 December 2020	43,148	8,574	51,722

Note:

Lump sum payments were made upfront to acquire 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.

As at 31 December 2020, the Group's land use rights with the carrying amount of RMB43,148,000 (2019: RMB4,938,000) were pledged to secure notes payable (Note 30(b)) and bank borrowings (Note 34).

15 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Lease liabilities

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

	2020 *RMB'000*	2019 *RMB'000*
At 1 January	**7,127**	7,135
Addition	**360**	2,423
Additions through Step Acquisition from associates to subsidiaries (Note 38)	**3,998**	–
Interest expense	**318**	320
Lease payments	**(3,746)**	(2,795)
Foreign exchange movements	**(48)**	44
At 31 December	**8,009**	7,127

Future lease payments are due as follows:

	Minimum lease payments 31 December 2020 *RMB'000*	Interest 31 December 2020 *RMB'000*	Present value 31 December 2020 *RMB'000*
Not later than one year	4,801	(374)	4,427
Later than one year and not later than two years	2,993	(129)	2,864
Later than two years and not later than five years	752	(34)	718
	8,546	(537)	8,009

15 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) *Lease liabilities (Continued)*

	Minimum lease payments 31 December 2019 *RMB'000*	Interest 31 December 2019 *RMB'000*	Present value 31 December 2019 *RMB'000*
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

The present value of future lease payments are analysed as:

	2020 *RMB'000*	2019 *RMB'000*
Current liabilities	**4,427**	3,181
Non-current liabilities	**3,582**	3,946
	8,009	7,127

15 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(c) The amount recognised in profit or loss in relation to leases are as follows:

	2020	2019
	RMB'000	*RMB'000*
Depreciation of right-of-use assets	**3,922**	2,810
Interest on lease liabilities	**318**	320
Short-term lease expense *(Note 7)*	**196**	999
Low-value lease expense *(Note 7)*	**213**	–
	4,649	4,129

The Group as a lessor

The lease term is 38 months (2019: 38 months), the Group had future aggregate minimum lease rentals receivable under non-cancellable operating leases as follows:

	2020	2019
	RMB'000	*RMB'000*
Not later than one year	**391**	375
Later than one year and not later than five years	**495**	820
	886	1,195

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 2019						
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						
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
Year ended 31 December 2020						
Opening net book amount	53,460	21,381	16,522	4,030	94	95,487
Additions	942	2,582	132	53	27,581	31,290
Additions through Step Acquisition from associates to subsidiaries *(Note 38)*	1,692	5,046	693	995	155,200	163,626
Disposal	–	(62)	(27)	(14)	–	(103)
Transfer	–	139	–	–	(139)	–
Eliminated on disposal	–	56	25	13	–	94
Depreciation *(Note 7)*	(3,087)	(3,284)	(2,131)	(821)	–	(9,323)
Closing net book amount	53,007	25,858	15,214	4,256	182,736	281,071
At 31 December 2020						
Cost	78,287	48,888	26,110	7,707	182,736	343,728
Accumulated depreciation	(25,280)	(23,030)	(10,896)	(3,451)	–	(62,657)
Net book amount	53,007	25,858	15,214	4,256	182,736	281,071

16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged in:

	2020 *RMB'000*	2019 *RMB'000*
Cost of sales	**3,896**	3,332
Administrative expenses	**5,418**	6,163
Selling expenses	**9**	7
Total	**9,323**	9,502

As at 31 December 2020, the Group's buildings with the carrying amount of RMB10,975,000 (2019: RMB11,407,000) were pledged to secure notes payable (Note 30(b)).

17 INVESTMENT PROPERTY

	2020 *RMB'000*	2019 *RMB'000*
At 1 January	**12,600**	11,700
Fair value adjustment *(Note 6)*	**(700)**	900
At 31 December	**11,900**	12,600

As at 31 December 2020, the Group had no unprovided contractual obligations for future repairs and maintenance (2019: 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 2020 and 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		Valuation methodology	Unobservable inputs	Amount of Unobservable inputs	
	2020 *RMB'000*	2019 *RMB'000*			**2020** *RMB*	2019 *RMB*
Investment property	**11,900**	12,600	Direct comparison method	Market price (RMB/square meter)	**18,939**	20,053

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

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

As at 31 December 2020 and 2019, the Group's investment property was pledged to secure notes payable (Note 30(b)).

18 INTANGIBLE ASSETS

	Computer software *RMB'000*	Patents *RMB'000*	Total *RMB'000*
At 1 January 2019			
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
Year ended 31 December 2020			
Opening net book amount	331	–	331
Additions	–	–	–
Amortisation charge *(Note 7)*	(74)	–	(74)
Closing net book amount	257	–	257
At 31 December 2020			
Cost	774	750	1,524
Accumulated amortisation	(517)	(750)	(1,267)
Net book amount	257	–	257

Amortisation had been charged in administrative expenses.

19 INVENTORIES

	2020 *RMB'000*	2019 *RMB'000*
Raw materials	**26,735**	22,221
Work in progress	**33**	252
Finished goods	**42,064**	16,206
Inventories – net	**68,832**	38,679

The cost of inventories included in cost of sales during the year ended 31 December 2020 amounted to RMB382,623,000 (2019: RMB271,858,000).

During the year ended 31 December 2020, the Group did not make or reverse any provision for inventories (2019: Nil).

20 TRADE AND OTHER RECEIVABLES

	2020 *RMB'000*	2019 *RMB'000*
Non-current		
Deposits	**–**	511
Current		
Trade receivables, net (a)	**101,109**	125,340
Other receivables, net (b)	**7,888**	8,103
Prepayments (c)	**100,164**	63,662
Deposits, net (d)	**528**	25
	209,689	197,130
	209,689	197,641

20 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2020 *RMB'000*	2019 *RMB'000*
RMB	**126,275**	90,846
USD	**81,656**	104,655
HKD	**1,758**	2,140
	209,689	197,641

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

(a) Trade receivables, net

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:

	2020 *RMB'000*	2019 *RMB'000*
Up to 3 months	**70,044**	62,080
3 to 6 months	**28,666**	27,821
6 to 12 months	**1,792**	33,407
Over 12 months	**3,800**	3,304
	104,302	126,612
Loss allowance for impairment	**(3,193)**	(1,272)
	101,109	125,340

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 64% (2019: 58%) of the Group's revenue for the year. They accounted for 77% (2019: 78%) of the gross trade receivable balances as at 31 December 2020.

20 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables, net *(Continued)*

As at 31 December 2020, trade receivables of RMB5,592,000 (2019: RMB36,711,000) were past due.

The Group and the Company recognised impairment loss based on the accounting policy stated in Note 2.12.3.

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.

	2020 ***RMB'000***	2019 *RMB'000*
Up to 3 months	**69,367**	62,074
3 to 6 months	**28,582**	27,819
6 to 12 months	**1,716**	33,060
Over 12 months	**1,444**	2,387
	101,109	125,340

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 material collateral as security for these receivables.

As at 31 December 2020, loss allowances of approximately RMB3,193,000 were made against the gross amount of trade receivables (2019: RMB1,272,000).

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

	RMB'000
At 1 January 2019	103
Impairment losses recognised	1,169
At 31 December 2019 and 1 January 2020	1,272
Impairment losses recognised	1,991
Amounts written off	(70)
At 31 December 2020	3,193

20 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Other receivables, net

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

	RMB'000
At 1 January 2019	–
Impairment losses recognised	94
At 31 December 2019 and 1 January 2020	94
Impairment losses recognised	124
Exchange adjustment	(4)
At 31 December 2020	214

(c) Prepayments

Prepayments are mainly advance payments to suppliers for raw materials.

(d) Deposits, net

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

	RMB'000
At 1 January 2019, 31 December 2019 and 1 January 2020	–
Impairment losses recognised	15
Exchange adjustment	(1)
At 31 December 2020	14

21 PREPAYMENTS FOR CONSTRUCTION IN PROGRESS, PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2020, the prepayments for construction in progress, property, plant and equipment are related to advances made under construction contracts and purchases contracts related to development of production plant in Mainland China (2019: Nil).

22 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSETS 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 in Ever Clever

	2020 *RMB'000*	2019 *RMB'000*
Non-current		
Unlisted equity securities		
Ordinary shares – Ever Clever	–	66,931

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 RMB66,931,000 (2019: RMB81,729,000) was recognised in other reserves.

During the year ended 31 December 2019, 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.

During the year ended 31 December 2020, based on the findings from the investigation report performed by a legal adviser in the PRC, the Company noted that HGRL has been taken over by another entity appointed by the Huailai county government since September 2020, and HGRL had significant overdue payables as at 31 December 2020 based on litigation search records. Based on the above situation, the Directors of the Company considered that the takeover may be sustained and the HGRL's financial position was in doubt. The Directors of the Company re-assessed the valuation techniques of the fair value of 25% equity interest in Ever Clever and concluded that given the current situation of HGRL, net asset value approach was adopted (2019: relative valuation model).

22 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSETS AT FVTPL *(Continued)*

A. Financial Asset at FVOCI *(Continued)*

(ii) Equity investment in Ever Clever (Continued)

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

	Valuation technique	Significant unobservable inputs	Amount	Sensitivity of fair value to the input
Unlisted equity securities – Ever Clever				
As at 31 December 2020	Net asset value approach	Distress discount (including consideration of lack of marketability)	66.35%	5% increase/(decrease) in distress discount would result in (decrease)/increase in fair value by RMB Nil
		Minority discount	21.60%	5% increase/(decrease) in minority discount would result in (decrease)/ increase in fair value by RMB Nil
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

22 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSETS AT FVTPL *(Continued)*

B. Financial Assets at FVTPL

	2020	2019
	RMB'000	*RMB'000*
Current		
Profit guarantee in respect of investment in 25% equity interests in Ever Clever (the "Profit Guarantee") *(Note i)*	**–**	9,132
Unlisted equity securities *(Note ii)*	**208**	–
	208	9,132

(i) Profit Guarantee

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 consecutive twelve-month periods ending on 31 March 2020, the audited net profit after tax of HGRL, a non wholly-owned subsidiary of Ever 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.

The Profit Guarantee contracted with the EC Vendor is recognised as a derivative financial instrument under HKFRS 9 and is accounted for in accordance with note 2.12.6.

22 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSETS AT FVTPL *(Continued)*

B. Financial Assets at FVTPL *(Continued)*

(i) Profit Guarantee (Continued)

During the year ended 31 December 2020, the Directors of the Company acted as plaintiff to commence the legal proceedings in the High Court of Hong Kong on 2 November 2020 against the EC Vendor as defendant for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the Sale and Purchase Agreement to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfilment of the Profit Guarantee. Based on the unknown willingness and ability of the EC Vendor fulfilling the Profit Guarantee, the Directors of the Company re-assessed the valuation techniques of the fair value of the Profit Guarantee and concluded that given the current situation, default model was adopted (2019: discounted cash flow method). 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%.

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.

22 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSETS AT FVTPL *(Continued)*

B. Financial Assets at FVTPL *(Continued)*

(i) Profit Guarantee (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
Profit Guarantee				
As at 31 December 2020	Default model	Expected default rate	100%	10% increase/ (decrease) in expected default rate would result in (decrease)/increase in fair value by RMB Nil
		Expected recovery rate	0%	10% increase/ (decrease) in expected recovery rate would result in increase/ (decrease) in fair value by RMB282,750,000
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

22 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSETS AT FVTPL *(Continued)*

B. Financial Assets at FVTPL *(Continued)*

(ii) Unlisted equity securities

The unlisted equity securities which are measured at fair value at the end of the reporting period, based on the relevant agreement, the Group can require the relevant investment manager to redeem the units at net asset value. The fair value of the unlisted equity securities of approximately RMB208,000 as at 31 December 2020 is provided by the relevant investment manager. The Group has determined that the reported net asset value represents the fair value of the unlisted equity securities.

Sensitivity analysis is not applicable to the above unlisted equity securities in which the fair value is based on net asset value.

23 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

	2020	2019
	RMB'000	*RMB'000*
Cash at banks and in hand	**53,708**	152,094
Less: Short-term bank deposits	**–**	(103,319)
Cash and cash equivalents	**53,708**	48,775

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

	2020	2019
	RMB'000	*RMB'000*
RMB	**18,468**	135,116
HKD	**720**	1,034
USD	**34,489**	15,900
JPY	**31**	44
	53,708	152,094

There was no short-term bank deposits with initial terms of more than 3 months but less than one year as at 31 December 2020 (2019: approximately RMB103,319,000). The weighted average interest rate for the short-term bank deposits of the Group as at 31 December 2019 was 1.88% 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.

24 PLEDGED BANK DEPOSITS

Pledged bank deposits represented bank deposits placed as guarantee deposits for issuing notes payable (Note 30(b)) and secure the Group's banking facilities.

The effective interest rate of pledged bank deposits was 1.15% (2019: 1.52%) per annum at 31 December 2020. All pledged bank deposits were denominated in RMB and USD, and kept with banks in the PRC and Hong Kong.

25 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost		Financial assets at FVOCI		Financial assets at FVTPL		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	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	**109,525**	133,979	**–**	–	**–**	–	**109,525**	133,979
Financial assets at FVTPL	**–**	–	**–**	–	**208**	9,132	**208**	9,132
Financial asset at FVOCI	**–**	–	**–**	66,931	**–**	–	**–**	66,931
Cash and cash equivalents	**53,708**	48,775	**–**	–	**–**	–	**53,708**	48,775
Short-term bank deposits	**–**	103,319	**–**	–	**–**	–	**–**	103,319
Pledged bank deposits	**54,197**	23,795	**–**	–	**–**	–	**54,197**	23,795
Total	**217,430**	309,868	**–**	66,931	**208**	9,132	**217,638**	385,931

	Financial liabilities at amortised cost		Financial liabilities at FVTPL		Total	
	2020	2019	**2020**	2019	**2020**	2019
	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	**–**	–	**–**	16,266
Note	**84,019**	106,170	**–**	–	**84,019**	106,170
Bank borrowings	**156,665**	93,310	**–**	–	**156,665**	93,310
Convertible bonds	**34,296**	33,426	**–**	–	**34,296**	33,426
Trade and other payables (excluding other taxes payable and payroll payable)	**209,587**	132,763	**–**	–	**209,587**	132,763
Financial liabilities at FVTPL	**–**	–	**–**	2,472	**–**	2,472
Lease liabilities	**8,009**	7,127	**–**	–	**8,009**	7,127
Total	**492,576**	389,062	**–**	2,472	**492,576**	391,534

26 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2020 and 2019	
	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 2019, 31 December 2019, 1 January 2020 and 31 December 2020	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 2020 and 2019.

27 FINANCIAL GUARANTEE CONTRACTS

As at 31 December, 2020, the Company has executed a guarantee (2019: one) to a financial institution in the amount not exceeding RMB40,000,000 (2019: RMB40,000,000) to secure the bank borrowings (Note 34) and notes payable (Note 30(b)) borrowed by a wholly-owned subsidiary, totalling approximately RMB29,900,000.

As at 31 December, 2020, a wholly-owned subsidiary has executed a guarantee (2019: Nil) to a financial institution to secure the facilities available to the Company in the amount not exceeding USD11,150,000 (equivalent to approximately RMB72,753,000) (2019: Nil). As at 31 December 2020, all banking facilities of this guarantee was utilised (2019: Nil).

28 OTHER RESERVES OF THE GROUP

	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Investment revaluation reserve RMB'000	Exchange reserves RMB'000	Total RMB'000
At 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 and 1 January 2020	8,986	28,029	30,567	(85,224)	(6,032)	(23,674)
Profit appropriation (a)	–	–	7,300	–	–	7,300
Changes in fair value of financial asset at FVOCI	–	–	–	(66,931)	–	(66,931)
Currency translation differences	–	–	–	–	16,539	16,539
At 31 December 2020	8,986	28,029	37,867	(152,155)	10,507	(66,766)

(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.

29 DEFERRED GOVERNMENT GRANTS

	2020 *RMB'000*	2019 *RMB'000*
At 1 January	**609**	739
Recognised to consolidated statement of comprehensive income	**(128)**	(130)
At 31 December	**481**	609

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

30 TRADE AND OTHER PAYABLES

	2020 *RMB'000*	2019 *RMB'000*
Trade payables (a)	**78,978**	42,128
Notes payables (b)	**117,848**	84,350
Other taxes payable	**–**	–
Accrued expenses	**6,296**	5,330
Other payables	**10,776**	3,712
	213,898	135,520

30 TRADE AND OTHER PAYABLES *(Continued)*

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

	2020 **RMB'000**	2019 RMB'000
RMB	**212,072**	133,241
HKD	**519**	2,279
USD	**1,307**	–
	213,898	135,520

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:

	2020 **RMB'000**	2019 RMB'000
Up to 3 months	**77,952**	37,978
3 to 6 months	**765**	2,270
6 to 12 months	**261**	1,480
Over 12 months	**–**	400
	78,978	42,128

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

(b) Notes payables represented bank acceptance notes, which were subject to surcharge ranging from 0% to 0.06% (2019: 0% to 0.06%) of the face value of the notes, with maturity dates from 6 January 2021 to 25 June 2021 (2019: from 3 January 2020 to 27 June 2020), and were secured by pledged bank deposits (Note 24), the land use rights (Note 15) and certain property, plant and equipment (Note 16) of the Group.

31 BONDS

	2020 *RMB'000*	2019 *RMB'000*
Current	**–**	16,266

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 (equivalent to approximately RMB51,895,000) were duly settled at the maturity date.

During the year ended 31 December 2020, the entire 2018 Bonds with principal amount of HKD18,500,000 (equivalent to approximately RMB16,138,000) were duly settled at the maturity date.

32 NOTE

	2020 *RMB'000*	2019 *RMB'000*
Current	**84,019**	106,170

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.

During the year ended 31 December 2020, the Company, Prosper One Development Limited, a wholly-owned subsidiary of the Company, Mr. Yu Yuerong, a director of the Company, and the note purchaser, independent parties from each other, entered into a supplemental deed in relation to the extension of maturity date of the Note from 30 May 2020 to 30 May 2021. The Company has redeemed a portion of the Note in the principal amount of HKD10,000,000 (equivalent to approximately RMB8,887,000), and settled all outstanding interest and Administrative Fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 May 2020. The Company has redeemed another portion of the Note in the principal amount of HKD10,000,000 (equivalent to approximately RMB8,887,000), and settled all outstanding interest and Administrative Fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 November 2020.

Based on the assessment performed by the Group, the modification is regarded as non-substantial modification. The gain on modification of Note of approximately RMB1,193,000 is recognised in profit or loss at the date of modification (2019: Nil).

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.

33 CONVERTIBLE BONDS/FINANCIAL LIABILITIES AT FVTPL

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) to the EC Vendor as part of the consideration for the acquisition of 25% equity interest in 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 EC Vendor. The Convertible Bonds are denominated in RMB, bears zero interest and will be matured on 28 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 EC 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.

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 FVTPL) 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, 2019 and 2020, were assessed by an independent valuer, were 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 2019 and 2020 (Note 6).

33 CONVERTIBLE BONDS/FINANCIAL LIABILITIES AT FVTPL *(Continued)*

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

	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 1 January 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 and 1 January 2020	33,426	2,472	35,898
Interest charge *(Note 9)*	870	–	870
Change in fair value *(Note 6)*	–	(2,472)	(2,472)
At 31 December 2020	34,296	–	34,296

33 CONVERTIBLE BONDS/FINANCIAL LIABILITIES AT FVTPL *(Continued)*

Information about fair value measurement of derivative component in the Convertible Bonds using significant unobservable inputs (Level 3):

	Valuation technique	Significant of unobservable inputs	Amount	Sensitivity of fair value to the input
As at 31 December 2020	Binomial options pricing model	Expected volatility	47.50%	10% increase/(decrease) in expected volatility would result in increase/ (decrease) in fair value by RMB Nil
		Dividend yield	0%	
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%	

34 BANK BORROWINGS

	2020 *RMB'000*	2019 *RMB'000*
Current *(Note)*	**156,665**	93,310

Notes:

Bank borrowings of approximately RMB136,865,000 (2019: approximately RMB93,310,000) are secured by the Group's land use rights (Note 15), property, plant and equipment (Note 16), investment property (Note 17) and pledged bank deposits (Note 24). The remaining balance of approximately RMB19,800,000 (2019: Nil) is unsecured.

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 2020 was 3.40% (2019: 4.35%).

The exposure of the Group's interest-bearing bank borrowings are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Fixed-rate bank borrowings	**84,892**	–
Floating-rate bank borrowings	**71,773**	93,310
	156,665	93,310

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

	2020 *RMB'000*	2019 *RMB'000*
USD	**81,366**	55,810
RMB	**75,299**	37,500
	156,665	93,310

The carrying amounts of bank borrowings approximate to their fair values and the impact of discounting is not material.

35 DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

	Government grants payable *RMB'000*	Accrued expenses *RMB'000*	Total *RMB'000*
At 1 January 2019	111	220	331
Charged to the consolidated statement of comprehensive income	(19)	–	(19)
At 31 December 2019 and 1 January 2020	92	220	312
Charged to the consolidated statement of comprehensive income	(19)	(220)	(239)
At 31 December 2020	73	–	73

35 DEFERRED TAX *(Continued)*

The movements in deferred tax liabilities during the year are as follows:

	Fair value adjustment on investment property	Fair value adjustment on financial asset at FVTPL	LAT	Fair value adjustment on land use right *(Note)*	Fair value adjustment on property, plant and equipment *(Note)*	Fair value adjustment on inventories *(Note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	949	–	–	–	–	–	949
Charged to the consolidated statement of comprehensive income	105	–	–	–	–	–	105
At 31 December 2019 and 1 January 2020	1,054	–	–	–	–	–	1,054
Additions through Step Acquisition from associates to subsidiaries *(Note 38)*	–	–	–	2,009	3,520	39	5,568
(Credited)/charged to the consolidated statement of comprehensive income	(74)	1	1,837	(9)	(6)	(39)	1,710
At 31 December 2020	980	1	1,837	2,000	3,514	–	8,332

Note:

It represented the deferred tax liabilities recognised due to fair value adjustments on land use right included in right-of-use assets, property, plant and equipment and inventories arising from the Step Acquisition of Sinopharm Jinyue Aerosol Group during the year ended 31 December 2020.

36 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2020 (2019: Nil).

37 CASH FLOWS INFORMATION

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

	2020 *RMB'000*	2019 *RMB'000*
Profit before income tax	**53,110**	31,334
Adjustments for:		
Interest income *(Note 9)*	**(1,939)**	(2,383)
Interest expense *(Note 9)*	**18,532**	22,971
Depreciation of property, plant and equipment *(Note 16)*	**9,323**	9,502
Fair value loss/(gain) on investment property *(Note 17)*	**700**	(900)
Inventories written off *(Note 7)*	**491**	441
Change in fair value of financial liabilities at FVTPL *(Note 33)*	**(2,472)**	432
Change in fair value of financial assets at FVTPL *(Note 6)*	**9,124**	(484)
Share of results of joint ventures *(Note 13)*	**2,013**	(2,653)
Share of results of associates	**1,632**	225
Depreciation of right-of-use assets *(Note 15)*	**3,922**	2,810
Amortisation of intangible assets *(Note 18)*	**74**	71
Impairment losses on trade receivables, other receivables and deposits	**2,130**	1,263
Deferred government grants income *(Note 29)*	**(128)**	(130)
Losses on disposals of property, plant and equipment	**9**	449
Loss on Step Acquisition *(Note 38)*	**9,179**	–
Gain on bargain purchase *(Note 38)*	**(15,098)**	–
Gain on non-substantial modification *(Note 32)*	**(1,193)**	–
Changes in working capital:		
Decrease in trade and other receivables	**62,857**	22,352
(Increase)/decrease in inventories	**(21,615)**	4,914
Decrease in amount due from a joint venture	**–**	500
(Decrease)/increase in trade and other payables and contract liabilities	**(90,258)**	20,394
Cash generated from operations	**40,393**	111,108

37 CASH FLOWS INFORMATION *(Continued)*

(ii) Reconciliation of liabilities arising from financing activities

	Bank borrowings (Note 34) *RMB'000*	Notes payables (Note 30(b)) *RMB'000*	Bonds (Note 31) *RMB'000*	Note (Note 32) *RMB'000*	Lease liabilities (Note 15) *RMB'000*	Total *RMB'000*
At 1 January 2020	93,310	84,350	16,266	106,170	7,127	307,223
Changes from cash flows:						
Proceeds from bank borrowings	188,267	–	–	–	–	188,267
Repayments of bank borrowings	(119,613)	–	–	–	–	(119,613)
Proceeds from notes payables	–	194,507	–	–	–	194,507
Repayments of notes payables	–	(161,009)	–	–	–	(161,009)
Redemption of bonds	–	–	(16,138)	–	–	(16,138)
Repayments of note	–	–	–	(17,775)	–	(17,775)
Repayments of principal portion of the lease liabilities	–	–	–	–	(3,428)	(3,428)
Total changes from financing cash flows:	68,654	33,498	(16,138)	(17,775)	(3,428)	64,811
Exchange adjustments:	(5,299)	–	(431)	(5,848)	(48)	(11,626)
Other changes:						
Additions through Step Acquisition from associates to subsidiaries *(Note 38)*	–	–	–	–	3,998	3,998
Interest expenses (non-cash)	–	–	303	2,665	–	2,968
Non-substantial modification (non-cash)	–	–	–	(1,193)	–	(1,193)
Additional of lease liabilities (non-cash)	–	–	–	–	360	360
Total other changes	(5,299)	–	(128)	(4,376)	4,310	(5,493)
At 31 December 2020	156,665	117,848	–	84,019	8,009	366,541

37 CASH FLOWS INFORMATION *(Continued)*

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

	Bank borrowings (Note 34) *RMB'000*	Notes payables (Note 30(b)) *RMB'000*	Bonds (Note 31) *RMB'000*	Note (Note 32) *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
Repayments of bank borrowings	(64,197)	–	–	–	–	(64,197)
Proceeds from notes payables	–	172,576	–	–	–	172,576
Repayments of notes payables	–	(174,804)	–	–	–	(174,804)
Redemption of bonds	–	–	(51,895)	–	–	(51,895)
Repayments 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

(iii) Major non-cash transactions

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.

During the year ended 31 December 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of approximately RMB3,998,000 which were acquired through the Step Acquisition from associates to subsidiaries (Note 38). There was a non-cash movement of the note (Note 32) of RMB1,193,000 in respect of non-substantial modification of the note.

38 BUSINESS ACQUISITION

Pursuant to a share transfer agreement (the "Agreement") entered into between Ludao PRC and other shareholder of Sinopharm Jinyue Aerosol on 10 October 2020, 82% equity interest in Sinopharm Jinyue Aerosol and its subsidiaries, the then associates of the Group, were acquired by the Group, at a total consideration of RMB56,550,000. The Group's equity interest in Sinopharm Jinyue Aerosol increased from 7% to 89%, and equity interest in Zhejiang Sinopharm Jinyue Aerosol increased from 44.2% to 93.4% after the completion of this transaction, i.e. on 10 October 2020 (the "Completion Date").

Based on the assessment performed by the Group, the Sinopharm Jinyue Aerosol Group meet the definition of a business and controls were transferred to the Group. Therefore, the Step Acquisition was accounted for business combination using the acquisition method.

	RMB'000
Carrying value of the equity interest held before acquisition	72,056
Fair value of equity interest held before acquisition	(62,877)
Loss on Step Acquisition *(Note 6)*	9,179

38 BUSINESS ACQUISITION *(Continued)*

The fair value of identifiable assets and liabilities of the Sinopharm Jinyue Aerosol Group as at Completion Date were as follows:

	Notes	*RMB'000*
Property, plant and equipment	*16*	163,626
Right-of-use assets		
– Land use right	*15*	39,000
– Office premises and plant	*15*	3,998
Inventories		9,030
Trade and other receivables		76,462
Cash and bank balances		1,171
Trade and other payables		(139,585)
Lease liabilities	*15*	(3,998)
Deferred tax liabilities	*35*	(5,568)
Net identifiable assets acquired		144,136
Non-controlling interests		(9,611)
Gain on bargaining purchase	*6*	(15,098)
Net assets acquired		119,427
Cash flows:		
Cash consideration		56,550
Cash and cash equivalents acquired		(1,171)
Net cash outflow arising from Step Acquisition		55,379

39 RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with a related party:

Related party relationship	Type of transaction	*Note*	2020 *RMB'000*	2019 *RMB'000*
An associate	– Purchases from the Group	*(i)*	**349**	–
	– Sales to the Group	*(i)*	**1,468**	–

Note:

(i) The transactions were conducted at terms and conditions mutually agreed between the relevant party. The directors of the Company are of the opinion that those related party transactions were conducted in the normal ordinary course of business of the Group.

40 CONTINGENT LIABILITIES

As at 31 December 2020, the Group and the Company had no significant contingent liabilities (2019: Nil).

41 COMMITMENTS

Capital commitments

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

	2020 *RMB'000*	2019 *RMB'000*
Property, plant and equipment	**250,921**	282
Equity interest investment – Zhejiang Sinopharm Jinyue Aerosol	**–**	132,500
Total	**250,921**	132,782

42 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	(a)	15,295	15,295
Investment in a joint venture		61,278	63,184
Right-of-use assets		740	2,424
Trade and other receivables		–	511
Property, plant and equipment		–	5
		77,313	81,419
Current assets			
Trade and other receivables		1,760	4,565
Amounts due from subsidiaries		18,167	141,706
Short-term bank deposits		–	11,219
Pledged bank deposits		15,061	–
Cash and cash equivalents		1,033	1,096
		36,021	158,586
Total assets		113,334	240,005
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)	15,173	17,279
Accumulated losses	(c)	(264,064)	(174,244)
Total (deficit)/equity		(79,117)	12,809
LIABILITIES			
Non-current liabilities			
Convertible bonds		–	33,426
Lease liabilities		–	580
		–	34,006
Current liabilities			
Bonds		–	16,266
Convertible bonds		34,296	–
Note		84,019	106,170
Trade and other payables		1,817	10,835
Financial liabilities at FVTPL		–	2,472
Bank borrowings		71,774	55,810
Lease liabilities		545	1,637
		192,451	193,190
Total liabilities		192,451	227,196
Total equity and liabilities		113,334	240,005

The statement of financial position of the Company was approved by the Board of Directors on 30 March 2021 and was signed on its behalf.

Yu Yuerong
Director

Wang Xiaobing
Director

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

(a) The following is a list of the principal subsidiaries at 31 December 2020:

Name	Form of business structure	Place and date of incorporation/ establishment	Issued share capital/paid-up registered capital	Equity interest held 2020	2019	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%**	100%	Investment holding, BVI
Indirectly held:						
Ludao PRC	Wholly-foreign owned enterprise	Established in the PRC on 23 August 2002	HKD280,000,000	**100%**	100%	Manufacturing and selling of aerosol products, the PRC
Sinopharm Jinyue Aerosol *(Note)*	Limited liability company	Established in the PRC on 13 September 2017	RMB68,550,000	**89%**	–	Research and development, manufacture and sale of medical and edible aerosol products, the PRC
Zhejiang Sinopharm Jinyue Aerosol *(Note)*	Limited liability company	Established in the PRC on 27 June 2019	RMB134,000,000	**93.4%**	–	Research and development on aerosol and cosmetic products, provide consultancy service on aerosol and cosmetic products, manufacturing and selling of aerosol and related products, the PRC

All subsidiaries are limited liability companies.

Note:

During the year ended 31 December 2020, the Group acquired 82% equity interest in Sinopharm Jinyue Aerosol. Based on the assessment preformed by the Group, it was accounted for business combination. Thereafter, Sinopharm Jinyue Aerosol and its subsidiaries, including Zhejiang Sinopharm Jinyue Aerosol became subsidiaries of the Group. Detailed information is set out in Note 38.

42 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

(Continued)

(b) Reserve movement of the Company

	Exchange reserves *RMB'000*	Total *RMB'000*
At 1 January 2019	15,845	15,845
Currency translation differences	1,434	1,434
At 31 December 2019 and 1 January 2020	17,279	17,279
Currency translation differences	(2,106)	(2,106)
At 31 December 2020	15,173	15,173

(c) Accumulated losses

	2020 ***RMB'000***	2019 *RMB'000*
Balance at 1 January	**(174,244)**	(60,823)
Losses for the year	**(89,820)**	(113,421)
Balance at 31 December	**(264,064)**	(174,244)

43 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		Discretionary bonus		Employer's contribution to retirement scheme		Total	
	2020 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	2019 *RMB'000*
Executive Directors										
Mr. Yu Yuerong										
– also the chief executive	–	–	955	1,075	–	–	16	16	971	1,091
Mr. Tan Xiangdong	–	–	833	1,075	122	–	15	16	970	1,091
Mr. Chen Baoyuan	–	–	130	221	18	–	7	9	155	230
Ms. Pan Yili	–	–	94	140	25	–	10	11	129	151
Mr. Wang Xiaobing	–	–	211	270	35	–	15	16	261	286
	–	–	2,223	2,781	200	–	63	68	2,486	2,849
Non-executive Director										
Mr. Tian Tingshan	99	215	–	–	–	–	–	–	99	215
Independence non– executive Directors										
Mr. Chan Yin Tsung	160	161	–	–	–	–	–	–	160	161
Mr. Ruan Lianfa	142	142	–	–	–	–	–	–	142	142
Ms. Yau Kit Kuen Jean	160	161	–	–	–	–	–	–	160	161
	462	464	–	–	–	–	–	–	462	464

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

There was no directors' retirement benefits, directors' termination benefits, consideration provided to third parties for making available directors' services and no loans, quasi-loans or other dealings entered into by the Group in favour of any directors, bodies corporate controlled by and entities connected with such directors during the year (2019: 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.

44 IMPACT OF COVID-19

The outbreak of COVID-19 has brought uncertainties in the global economic situation which may affect the operating environment of the Group. However, it also created certain opportunity for the Group in the demand of disinfection products. The Directors will closely monitor the development of the COVID-19 and assess its impact on the financial position and operating results of the Group.

45 LITIGATION

The Group acted as plaintiffs to commence the legal proceedings in the High Court of Hong Kong by submitting the writ of summons against the EC Vendor on 2 November 2020 against for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the Sale and Purchase Agreement to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfilment of the Profit Guarantee (Note 22B(i)).

As at the date of this report, the Company has not yet received any notice or reply from the EC Vendor. The Company is now in course of preparation for application to the court for entering judgement against the EC Vendor.

Although the Group is of the view that it is in a strong position to cancel the Convertible Bonds (Note 33) issued to the EC Vendor, to be prudent, the Convertible Bonds were not derecognised before obtaining the final judgement from the court.

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				
	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**566,291**	412,578	405,047	395,741	274,232
Cost of sales	**(385,271)**	(299,062)	(309,907)	(307,346)	(196,990)
Gross profit	**181,020**	113,516	95,140	88,395	77,242
Other income and other (expenses)/gains – net	**(7,406)**	7,494	14,098	868	4,408
Selling expenses	**(27,289)**	(25,024)	(22,744)	(18,608)	(21,612)
Administrative expenses and impairment loss on trade receivables, other receivables and deposits	**(71,605)**	(47,026)	(46,356)	(41,196)	(35,817)
Finance costs – net	**(17,965)**	(20,054)	(16,581)	(4,781)	3,557
Share of results of joint ventures	**(2,013)**	2,653	5,126	2,054	–
Share of results of associates	**(1,632)**	(225)	–	–	–
PROFIT BEFORE INCOME TAX	**53,110**	31,334	28,683	26,732	27,778
Income tax expense	**(12,678)**	(7,582)	(5,444)	(4,882)	(4,496)
PROFIT FOR THE YEAR	**40,432**	23,752	23,239	21,850	23,282

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**859,595**	746,220	796,210	640,670	438,414
TOTAL LIABILITIES	**532,819**	419,095	408,264	283,750	102,761
	326,776	327,125	387,946	356,920	335,653

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2020 and 2019 and the consolidated assets and liabilities of the Group as at 31 December 2020 and 2019 are set out on pages 76 to 197 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.