



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: HK 2023

# INTERIM REPORT



## CONTENTS

Corporate Information	2
Business at a Glance	4
Management Discussion and Analysis	5
Interim Condensed Consolidated Statement of Comprehensive Income	15
Interim Condensed Consolidated Statement of Financial Position	16
Interim Condensed Consolidated Statement of Changes in Equity	18
Interim Condensed Consolidated Statement of Cash Flows	19
Notes to the Interim Condensed Consolidated Financial Statements	20
Corporate Governance and Other Information	36

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Mr. Yu Yuerong (*Chairman*)  
Ms. Pan Yili  
Mr. Wang Xiaobing

### 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

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2003, 20/F  
Dah Sing Financial Centre  
248 Queen's Road East  
Wan Chai  
Hong Kong

### HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

## **INDEPENDENT AUDITOR**

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

## **LEGAL ADVISOR**

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

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

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.ludao.cn](http://www.ludao.cn)

## **STOCK CODE**

2023

## BUSINESS AT A GLANCE

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 six months ended 30 June 2021 (the “Reporting Period”), the world was still affected by the epidemic, and industries in some countries’ were facing a crisis of production reduction or even suspension of production. The Company was under dual pressure of rising raw material prices and the difficulties in sourcing a container for export to the United States. Under such circumstances, the Group adhered to the development strategy of being based on itself, quality-oriented, pioneering and innovating, maintaining its existing customers, and actively expanding new customers. Under this strategy, the Group’s CMS business maintained a good growth trend with an increase of 25.2%. The Group will continue to maintain close contact and cooperation with its customers and suppliers, review its development strategy in a timely manner and strengthen its own innovation capabilities. During the Reporting Period, the Group continued to increase its support for developing projects in respect of research and development, manufacturing and sales of 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 identify other potential investment opportunities in the market so as to enhance the competitiveness and synergy of the Group.

For the six months ended 30 June 2021, the revenue and net profit of the Group were approximately RMB312.1 million and RMB24.2 million respectively, representing an increase of approximately 18.4% and decrease of 15.6% as compared with that of in the corresponding period of 2020. The earnings per share for profit attributable to owners of the Company was RMB0.05 during the Reporting Period which represents a decrease of RMB0.01 as compared with the earnings per share of RMB0.06 for the corresponding period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### *Turnover*

##### *CMS*

For the six months ended 30 June 2021, the turnover of the Group's CMS business was approximately RMB279.1 million (2020: RMB222.9 million), representing an increase of approximately 25.2% as compared with that of in the corresponding period of 2020.

During the Reporting Period, the world was still affected by the epidemic, and industries in some countries were facing a crisis of production reduction or even suspension of production. Affected by this, the Company was under the dual pressure of rising raw material prices and the difficulties in sourcing a container for export to the United States. The CMS business faced unprecedented challenges. Under such circumstances, the Group's CMS business still achieved a growth of 25.2%. The Group adhered to the development strategy of being based on itself, quality-oriented, pioneering and innovating, maintaining its existing customers, and actively expanding new customers. The Group continued to consolidate the existing market share of CMS, seek development in a timely manner, and explore market shares in other countries in order to better maintain the growth of CMS business.

##### *OBM*

The turnover for OBM business of the Group for the six months ended 30 June 2021 was approximately RMB33.0 million (2020: RMB40.6 million), representing a decrease of approximately 18.7% as compared with that of in the corresponding period in 2020.

During the Reporting Period, due to the increase in raw material prices and the fact that the hot weather this year was later than that in previous years, the sales peak of the disinfection segment of the OBM business that is sensitive to the seasonality appeared about a month later than that in last year, and thus the Group's OBM business recorded a decrease of 18.7% in revenue. In the second half of the year, the Group will strengthen quality management, optimize product design, accelerate product iteration, launch products that are more in line with the current situation, and take advantage of the rapid growth of CMS to improve its brand image, thus driving the growth of OBM business.

#### *Cost of Sales*

Cost of sales of the Group for the six months ended 30 June 2021 was approximately RMB228.0 million (2020: RMB183.8 million), representing an increase of approximately 24.1% as compared with that of in the corresponding period of 2020. The increase was due to the sales growth and inflation of certain raw materials.

## ***Gross Profit and Gross Profit Margin***

For the six months ended 30 June 2021, the Group recorded gross profit of approximately RMB84.2 million (2020: approximately RMB79.8 million) and the gross profit margin was approximately 27.0% (2020: 30.3%). The decrease in gross profit margin was mainly due to the effect of the increased in price competition of disinfection products and the inflation of certain raw materials.

## ***Other Income and Other Gains – Net***

Other income and other gains of the Group for the six months ended 30 June 2021 was approximately RMB1.2 million (2020: approximately RMB4.7 million), representing a decrease of approximately RMB3.5 million as compared with that of in the corresponding period of 2020. Such decrease was primarily due to the decrease of government grants income and change in fair value of financial liabilities at fair value through profits or loss during the Reporting Period.

## ***Expenses***

### ***Selling Expenses***

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, travelling and transportation expenses, advertising expenses and exhibition expenses. For the six months ended 30 June 2021, selling expenses was approximately RMB13.7 million (2020: approximately RMB10.5 million), representing an increase of approximately 30.8% as compared with that of in the corresponding period of 2020. The increment was in line with the revenue growth.

### ***Administrative Expenses***

Administrative expenses mainly represented the staff salaries and benefit expenses, depreciation and amortisation, travelling and transportation expenses, office expenses, research and development, tax and entertainment expenses. For the six months ended 30 June 2021, administrative expenses was approximately RMB33.3 million (2020: approximately RMB29.3 million), representing an increase of approximately 13.6% as compared with that of in the corresponding period of 2020. The increase in administrative expenses was primarily due to an increase in staff salaries and benefit expenses and travelling and transportation expenses.

### ***Finance Costs – net***

For the six months ended 30 June 2021, the Group recorded net finance cost of approximately RMB7.4 million (2020: approximately RMB8.5 million), representing a decrease of approximately 12.7% as compared with that of in the corresponding period of 2020. The decrease in finance costs was primarily due to the decrease in interest expenses from convertible bonds and no interest expense from bond during the Reporting Period.

## *Income Tax Expense*

The income tax expense of the Group for the six months ended 30 June 2021 was approximately RMB6.6 million, representing a decrease of approximately RMB0.5 million as compared with approximately RMB7.1 million for the corresponding period of 2020, which was mainly due to the reduction of profit.

## *Profit for the period*

The Group recorded profit for the six months ended 30 June 2021 of approximately RMB24.2 million (2020: approximately RMB28.7 million), representing a decrease of approximately RMB4.5 million as compared with that of in the corresponding period of 2020. Such decrease was primarily due to the effect of price competition in disinfection products and inflation of certain raw materials.

## **Highlights of Statement of Financial Position**

### *Property, Plant and Equipment*

The Group's property, plant and equipment was approximately RMB348.4 million as at 30 June 2021 compared to approximately RMB281.1 million as at 31 December 2020. Such increase was due to the Group had acquired property, plant and equipment of approximately RMB71.6 million during the Reporting Period. Details and breakdown of the property, plant and equipment were set out in Note 12 to the interim condensed consolidated 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 30 June 2021, the Group's prepayments for construction in progress, property, plant and equipment was approximately RMB58.7 million (31 December 2020: RMB66.7 million). The decrease of RMB8 million was due to the utilization of a portion of advanced payment in construction in progress related to the development of production plant in the PRC.

### *Inventories*

As at 30 June 2021, the inventories decreased by 30.3% to approximately RMB48.0 million (31 December 2020: approximately RMB68.8 million). This was mainly due to the improvement of inventories production schedule and quantity control by the Group during the Reporting Period.

### *Trade Receivables*

As at 30 June 2021, trade receivables of approximately RMB7.5 million were past due, representing an increase of approximately 34.6% as compared to the amount of RMB5.6 million as at 31 December 2020. The amount of the impairment provision was approximately RMB3.3 million (31 December 2020: RMB3.2 million).



## *Trade and Other Payables*

Trade and other payables increased by approximately RMB27.7 million or 13.0% from approximately RMB213.9 million as at 31 December 2020 to approximately RMB241.6 million as at 30 June 2021, which was primarily attributable to increase in purchase of raw materials from supplier with longer credit period during the Reporting Period.

## **Liquidity and Financial Resources**

As at 30 June 2021, the total assets of the Group amounted to approximately RMB907.7 million (31 December 2020: approximately RMB859.6 million), and the net current liabilities of approximately RMB174.1 million (31 December 2020: net current liabilities of approximately RMB133.8 million) and the Group's cash and bank deposits totalled approximately RMB84.3 million (31 December 2020: approximately RMB107.9 million). The current ratio of the Group decreased from 0.74 as at 31 December 2020 to 0.68 as at 30 June 2021.

The equity attributable to shareholders of the Company as at 30 June 2021 amounted to approximately RMB342.0 million (31 December 2020: approximately RMB317.3 million). The gearing ratio (based on the total debt over the total equity) of the Group slightly decreased from 120% as at 31 December 2020 to 111% as at 30 June 2021.

## **Borrowings and the Pledge of the Group's Assets**

As at 30 June 2021, note of RMB65.4 million (31 December 2020: RMB84.0 million) was secured by the 2,500 shares in Ever Clever Group Limited ("Ever Clever") by the Group. Bank borrowings of RMB178.8 million (31 December 2020: RMB156.7 million) and notes payable of RMB103.8 million (31 December 2020: RMB117.8 million) were secured by our properties, plant and equipment, land use rights, investment property and pledge bank deposits with an aggregate carrying amount of RMB108.8 million (31 December 2020: RMB120.2 million). Bank borrowings were mainly used for working capital management and/or financing the Group's purchases.

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

## **Financing**

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

## Contractual Obligations

As at 30 June 2021, the Group had capital commitments of approximately RMB173.5 million in respect of property, plant and equipment (31 December 2020: approximately RMB250.9 million).

The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of approximately RMB0.4 million within one year and approximately RMB0.2 million later than one year and no later than five years (31 December 2020: approximately RMB0.4 million and RMB0.5 million respectively).

## Contingent Liabilities

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: nil).

## Exchange Rate Exposure

During the six months ended 30 June 2021, the Group mainly operated in the PRC with most transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. Although the Group may be exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities which are denominated in currencies other than RMB, the Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

## Interim Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2021 (2020: nil).

## Employees and Emoluments Policy

As at 30 June 2021, the Group had employed a total of 568 employees in the PRC and Hong Kong (31 December 2020: 511). The Group offers comprehensive and competitive remuneration, retirement scheme, a share options scheme and benefit package to its employees. The emoluments of Directors have been determined with reference to the skills, knowledge, and involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group will review the remuneration policy and related packages on a regular basis.

## Significant Investment Held

As at 30 June 2021, the Group held the following significant investment:–

### Unlisted investment

Name of investee company	Nature of investment	Proportion of shares capital owned	30 June 2021		Approximately % of total assets of the Group (by fair value)	Proportion of shares capital owned	31 December 2020		Approximately % of total assets of the Group (by fair value)
			Cost RMB'000	Fair value RMB'000			Cost RMB'000	Fair value RMB'000	
Ever Clever Group Limited	Financial assets at fair value through other comprehensive income	25%	152,155	-	-	25%	152,155	-	-

### *Ever Clever Group Limited*

Ever Clever Group Limited (“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\*) (“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, are 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 fair value through other comprehensive income (“FVOCI”) upon initial recognition as the investment is not held for trading. The 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 issued by a legal adviser in the PRC, the Company noted that the heat supply operation of HGRL has been taken over by another PRC entity appointed by the Huailai County government since September 2020. In addition, HGRL had been 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 and 30 June 2021 will be minimal. As at 31 December 2020, the decrease in fair value of the financial asset at FVOCI of approximately RMB66,931,000 was recognised in other reserves. As at 30 June 2021, there was no change in fair value of the financial asset at FVOCI.

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 Ever Clever 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. The relevant transfer documents have been executed and delivered to the registered agent of Ever Clever for registration. However, the registered agent is reluctant to respond to the Company’s request to complete the registration for the given reason that it has not received a confirmation from the relevant administrator of Ever Clever. If the registered agent continues to refuse to process the registration, the Company will consider to engage a British Virgin Islands legal adviser by the end of September 2021 to provide assistance in enforcing the registration and taking out a legal action if necessary subject to the advice of the British Virgin Islands legal adviser.

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 nil, nil and RMB71.6 million in acquisition of subsidiaries, financial asset at fair value through profit or loss and property, plant and equipment respectively (2020: RMB55.4 million, RMB0.2 million and RMB30.3 million respectively).

Other than the above, the Group did not have any significant investments as at 30 June 2021.

## **Material Acquisition and Disposal**

The Group did not have any material acquisition and disposal of subsidiaries, associates or joint venture during the Reporting Period.

## **Other Information**

### **Update on Profit Guarantee in respect of the acquisition of 25% Equity Interest of Ever Clever**

Reference is made to the announcements of the Company dated 29 November 2017 and 5 December 2017 in relation to, amongst other things, the acquisition of 25% equity interest in Ever Clever. 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 since 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.

The Company has engaged legal advisers in the PRC to conduct enquires and searches in the PRC on HGRL and its legal representative in an attempt to obtain an update on (i) the criminal case in which the legal representative of HGRL is alleged to be involved (the “Criminal Case”); (ii) the alleged non-compliance of HGRL with certain administrative measures for public utility franchise (the “Non-Compliance”); and (iii) the temporary takeover of HGRL by the PRC government (the “Temporary Takeover”).

As advised by the PRC legal advisers, as details of criminal investigations are not made public in the PRC and there is no information available in respect of the details and the latest status of the Criminal Case, the search report only revealed that the legal representative of HGRL appears to remain as the legal representative, executive director and general manager of HGRL. If any further information regarding the Criminal Case does come to the attention of the Company, the Company will disclose such information by way of an announcement and/or in the interim/annual reports as and when appropriate.

Regarding the Temporary Takeover and the Non-Compliance, the public searches conducted by the PRC legal advisers showed that the heating operation of HGRL during the heating period 2020-2021 appears to have been taken over by Beijing Jialong Weiye Heat Supply Service Company Limited (北京佳龍偉業供暖服務有限公司). Save for the foregoing, the Company has not been able to obtain further information and update on the Non-Compliance and the Temporary Takeover from public sources.


As the Company has no board seat in HGRL and never directly participated in the management of HGRL, it had no access to or information on the management and business operations of HGRL. Further, the Company has been unable to conduct site-visits in the PRC due to the travel bans and restrictions imposed by the government as a result of the COVID-19 pandemic, which had also prevented the PRC legal advisers, which is based in the PRC, from conducting site-visits or physical investigation. If any further information regarding the Non-Compliance and the Temporary Takeover and the business operations of HGRL comes to the attention of the Company, the Company will disclose such information by way of an announcement and/or in the interim/annual reports as and when appropriate.

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 EC Share Charge against the EC Vendor and notified the EC Vendor of the same, subject to completion of the relevant registration and filing requirements, which have not yet been processed by the registered agent of Ever Clever for the given reason that it has not received a confirmation from the relevant administrator of Ever Clever. If the registered agent still continues to refuse to process the registration, the Company will consider to engage a British Virgin Islands legal adviser by the end of September 2021 to provide assistance in enforcing the registration and taking out a legal action if necessary subject to the advice of the British Virgin Islands legal adviser.

As disclosed in the announcement of the Company dated 2 November 2020, the Board had also resolved to exercise the rights of the Company to cancel the convertible bonds issued to the EC Vendor (the "Convertible Bonds"), subject to the obtaining of the final judgment in the legal proceedings in Hong Kong, and as such, the Company would no longer permit any exercise of conversion rights by the EC Vendor in respect of the Convertible Bonds. As at the date hereof, the EC Vendor has not converted any of the Convertible Bonds.

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. As the EC Vendor has, in breach of its obligations under the EC Agreement, failed to provide the financial statements of HGRL, no actual figures were provided for the purpose of assessing the fulfillment of the EC Profit Guarantee. Assuming that the net profit after tax of HGRL for all three financial years in the relevant periods of the EC Profit Guarantee is held by the court as HK\$0 for the purpose of assessing the fulfillment of the EC Profit Guarantee, the Company shall be entitled to a sum of approximately RMB2,827.5 million as cash compensation for the non-fulfillment of the EC Profit Guarantee for all three financial years in the relevant periods pursuant to the terms of the EC Agreement.



The writ of summons with statement of claim indorsed thereon was filed with the High Court of Hong Kong on 2 November 2020 against the EC Vendor. The Company subsequently engaged a British Virgin Islands legal adviser to effect service of the concurrent writ of summons upon the EC Vendor on 12 January 2021. As at the date of this report, the Company has not yet received any notice or defence from EC Vendor in response to the writ nor the statement of claim. The Company has been advised that it is entitled to apply for default judgment against the EC Vendor and is now in the course of preparation for summons to the court for an order to enter judgement against EC Vendor. The legal proceedings are currently in progress. It is expected that the judgment may be entered into by the year end of 2021.

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 and 2 November 2020.

## **Fund Raising Activity**

The Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2021 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.

## **Events after the Reporting Period**

Save as disclosed in this report, there was no other important events affecting the performance of the Group that have occurred since 1 July 2021 and up to the date hereof.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Note	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	6	312,135	263,517
Cost of sales	7	(227,973)	(183,762)
<b>Gross profit</b>		<b>84,162</b>	79,755
Other income and other gains	6	1,178	4,693
Selling expenses	7	(13,740)	(10,504)
Administrative expenses	7	(33,343)	(29,344)
<b>Operating profit</b>		<b>38,257</b>	44,600
Finance income	9	325	1,503
Finance costs	9	(7,748)	(10,001)
Finance costs – net		(7,423)	(8,498)
Share of result of associates		–	743
Share of results of a joint venture		(28)	(1,025)
<b>Profit before income tax</b>		<b>30,806</b>	35,820
Income tax expense	10	(6,571)	(7,080)
<b>Profit for the period</b>		<b>24,235</b>	28,740
<b>Other comprehensive expenses</b>			
Items that may be reclassified to profit or loss:			
Currency translation differences		(6,833)	(3,900)
Other comprehensive expenses for the period, net of tax		(6,833)	(3,900)
<b>Total comprehensive income for the period</b>		<b>17,402</b>	24,840
Profit for the period attributable to:			
Owners of the Company		24,293	28,740
Non-controlling interests		(58)	–
		<b>24,235</b>	28,740
Total comprehensive income for the period attributable to:			
Owners of the Company		17,460	24,840
Non-controlling interests		(58)	–
		<b>17,402</b>	24,840
<b>Earnings per share for profit attributable to owners of the Company</b>			
– basic and diluted (RMB per share)	11	0.05	0.06

The notes on pages 20 to 35 are an integral part of these interim condensed consolidated financial statements.



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in a joint venture		61,250	61,278
Property, plant and equipment	12	348,418	281,071
Right-of-use assets	12	49,121	51,722
Investment property		11,900	11,900
Intangible assets		56	257
Deferred income tax assets		73	73
Prepayments for construction in progress, property, plant and equipment		58,660	66,660
		<b>529,478</b>	472,961
<b>Current assets</b>			
Inventories		47,953	68,832
Trade and other receivables	13	245,793	209,689
Financial asset at fair value through profit or loss		208	208
Cash and cash equivalents		40,770	53,708
Pledged bank deposits		43,534	54,197
		<b>378,258</b>	386,634
<b>Total assets</b>		<b>907,736</b>	859,595
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	14	3,901	3,901
Share premium		150,143	150,143
Other reserves		(66,352)	(66,766)
Retained earnings		254,265	229,972
		<b>341,957</b>	317,250
<b>Non-controlling interests</b>		<b>2,221</b>	9,526
<b>Total equity</b>		<b>344,178</b>	326,776

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2021

	Note	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred government grants		481	481
Lease liabilities		2,425	3,582
Deferred income tax liabilities		8,330	8,332
		<u>11,236</u>	<u>12,395</u>
<b>Current liabilities</b>			
Trade and other payables	15	241,614	213,898
Contract liabilities		26,085	26,506
Current income tax liabilities		2,703	613
Bank borrowings		178,755	156,665
Note	16	65,390	84,019
Convertible bonds	17	–	34,296
Convertible bonds, matured	17	34,329	–
Lease liabilities		3,446	4,427
		<u>552,322</u>	<u>520,424</u>
<b>Total liabilities</b>		<u>563,558</u>	<u>532,819</u>
<b>Total equity and liabilities</b>		<u>907,736</u>	<u>859,595</u>

The notes on pages 20 to 35 are an integral part of these interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	(Unaudited)						
	Share capital RMB'000 (Note 14)	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
<b>Balance at 1 January 2021</b>	<b>3,901</b>	<b>150,143</b>	<b>(66,766)</b>	<b>229,972</b>	<b>317,250</b>	<b>9,526</b>	<b>326,776</b>
Comprehensive income							
Profit for the period	-	-	-	24,293	24,293	(58)	24,235
Currency translation differences	-	-	(6,833)	-	(6,833)	-	(6,833)
Total comprehensive income	-	-	(6,833)	24,293	17,460	(58)	17,402
Transfer of additional interest in subsidiaries	-	-	7,247	-	7,247	-	7,247
Changes in affiliate acquisition	-	-	-	-	-	(7,247)	(7,247)
<b>Balance at 30 June 2021</b>	<b>3,901</b>	<b>150,143</b>	<b>(66,352)</b>	<b>254,265</b>	<b>341,957</b>	<b>2,221</b>	<b>344,178</b>

For the six months ended 30 June 2020

	(Unaudited)						
	Share capital RMB'000 (Note 14)	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
<b>Balance at 1 January 2020</b>	<b>3,901</b>	<b>150,143</b>	<b>(23,674)</b>	<b>196,755</b>	<b>327,125</b>	<b>-</b>	<b>327,125</b>
Comprehensive income							
Profit for the period	-	-	-	28,740	28,740	-	28,740
Currency translation differences	-	-	(3,900)	-	(3,900)	-	(3,900)
Total comprehensive income	-	-	(3,900)	28,740	24,840	-	24,840
<b>Balance at 30 June 2020</b>	<b>3,901</b>	<b>150,143</b>	<b>(27,574)</b>	<b>225,495</b>	<b>351,965</b>	<b>-</b>	<b>351,965</b>

The notes on pages 20 to 35 are an integral part of these interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<b>Cash flows from operating activities</b>		
Cash generated from operations	73,709	21,039
Interest paid	(7,748)	(8,128)
Income tax paid	(6,571)	(1,123)
	<u>59,390</u>	<u>11,788</u>
<b>Cash flows from investing activities</b>		
Investment of an associate	–	(67,000)
Purchase of property, plant and equipment	(71,533)	(1,653)
Decrease (increase) in prepayment for property, plant and equipment	8,000	(12,387)
Decrease in pledged bank deposits	–	1,497
Decrease of short-term bank deposits	10,663	44,641
Interest received	325	1,503
	<u>(52,545)</u>	<u>(33,399)</u>
<b>Cash flows from financing activities</b>		
Redemption of bonds	–	(16,572)
Repayment of principal portion of the lease liabilities	(1,705)	(2,597)
Repayment of note	(16,700)	(10,139)
Proceeds from bank borrowings	76,328	101,010
Repayments of bank borrowings	(52,319)	(50,054)
Proceeds from notes payable	102,768	76,659
Repayment of notes payable	(116,848)	(84,350)
	<u>(8,476)</u>	<u>13,957</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,631)</b>	<b>(7,654)</b>
Cash and cash equivalents at beginning of the period	53,708	48,775
Currency translation differences	(11,307)	(1,054)
	<u>40,770</u>	<u>40,067</u>

The notes on pages 20 to 35 are an integral part of these interim condensed consolidated financial statements.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

China Ludao Technology Company Limited (the “Company”) was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company’s registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1180, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter referred to as the “Group”) are principally engaged in the manufacturing and sale of aerosol products for household and auto care products, air fresheners, personal care products and insecticides. The ultimate holding company of the Company is Ludao China Investments Holdings Limited (“Ludao Investments”) which is wholly owned by Mr. Yu Yuerong (“Controlling Shareholder” or “Mr. Yu”), who has an effective 48.97% interest in the Company.

Pursuant to a Group reorganisation (the “Reorganisation”) in preparation for the listing of shares of the Company, the Company acquired the entire issued share capital of Ludao Investments Holdings Limited (“Ludao BVI”), through a share exchange with Ludao Investments, the owner of Ludao BVI and the holding company of the Company, and Neland Development Limited. Upon completion of the Reorganisation in 2013, the Company became the holding company of the Group and Ludao BVI acts as the intermediate holding company of Zhejiang Ludao Technology Co., Ltd. (“Ludao PRC”), an operating subsidiary of the Group in the People’s Republic of China (the “PRC”).

On 11 October 2013, shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These unaudited interim condensed consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These unaudited interim condensed consolidated financial statements have been approved for issue by the board (the “Board”) of directors (the “Directors”) on 27 August 2021.

## 2 BASIS OF PREPARATION

This unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim financial reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

## 2 BASIS OF PREPARATION *(Continued)*

At 30 June 2021, the Group's current liabilities exceeded its current assets by approximately RMB174.1 million which was mainly attributable to the i) increase in trade and other payables; ii) increase in bank borrowings for the acquisition of property, plant and equipment; and iii) convertible bonds (the "Convertible Bonds") with fair value of approximately RMB34.3 million matured on 28 March 2021.

The Convertible Bonds were classified as current liabilities last reporting period as at 31 December 2020. 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 a writ of summons with statement of claim indorsed thereon 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. 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.

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 unutilised banking facilities of approximately RMB33,100,000 as at 30 June 2021; (c) the Group has credit loan facilities of HKD60,000,000 (equivalent to approximately RMB49,148,000) from a licensed money lender in Hong Kong; and d) subsequent to the Reporting Period, the Group has further obtained banking facilities of approximately RMB100,000,000 in PRC. 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 30 June 2021 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 condensed consolidated financial statement has been prepared on the basis that the Group will continue as a going concern.

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

## 3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those annual financial statements.

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

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

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to HKFRS 16	Covid-19-Related Rent Concessions

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021. The Group has not applied any new standard or interpretation which is not yet effective for the current accounting period.

## 4 ESTIMATES

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

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

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

### 5 SEGMENT INFORMATION

The executive directors (“EDs”) are chief operating decision makers. EDs review the Group’s internal reporting in order to assess performance and allocate resources. EDs have determined the operating segments based on the internal reports that are used to make strategic decisions. The Group is principally engaged in the manufacture and sale of aerosol and related products. The Group sells its products on CMS basis to overseas and PRC market and on OBM basis in the PRC market. All products are manufactured under the same production lines and distributed through distributors network. Result of investment activities are not material to be disclosed as a separate reportable operating segment. EDs review and assess performance of the Group on a combined basis and management considered that there is only one reportable operating segment.

#### Geographical information

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

#### *Revenue from external customers*

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
United States of America	66,318	73,318
Mainland China	125,395	126,656
Europe	141	3,925
Chile	106,966	36,618
Others	13,315	23,000
	<b>312,135</b>	263,517

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

#### *Non-current assets*

Non-current assets consist of right-of-use assets, property, plant and equipment, investment property and intangible assets which are mainly located in the PRC as at 30 June 2021 and 31 December 2020.



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

### 5 SEGMENT INFORMATION *(Continued)*

#### Information about major customers

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Customer A	105,858	54,972
Customer B	61,378	40,198
Customer C	n/a	37,624
Customer D	20,250	n/a
	<b>187,486</b>	<b>132,794</b>

n/a Revenue from the customer was less than 5% of the Group's revenue for the six months period ended 30 June 2021 and 30 June 2020.

### 6 REVENUE, OTHER INCOME AND OTHER GAINS

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<b>Revenue</b>		
Sales of goods	312,135	263,517
<b>Other income and other gains</b>		
Government grants	1,104	1,476
Technical service fee	–	91
Change in fair value of financial liabilities at fair value through profit or loss	–	2,322
Others	74	804
	<b>1,178</b>	<b>4,693</b>

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

### 7 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Depreciation and amortisation	5,774	6,211
Employee benefit expenses, excluding amount including in research and development costs	25,955	21,239
Raw materials used	207,834	143,796
Changes in inventories of finished goods and work in progress	(284)	25,661
Water and electricity expenditures	2,133	1,696
Transportation and travelling expenses	9,265	6,768
Telecommunication expenses	112	240
Advertising costs	45	263
Other tax expenses	583	1,401
Research and development costs		
– Employee benefit expenses	5,619	4,487
– Materials and others, excluding depreciation and amortisation	6,967	7,597
Entertainment expenses	593	563
Auditor's remuneration		
– Audit service	581	169
Professional services fee	1,738	974
Other expenses	8,141	2,545
Total	275,056	223,610

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

### 8 DIRECTORS' EMOLUMENTS

The Directors' and chief executive's emoluments during the six months ended 30 June 2021 and 2020 are equivalent to key management compensation, and is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Fee	219	335
Salaries	488	1,430
Pension scheme contributions	18	35
	<hr/>	<hr/>
Total compensation paid to key management personnel	<b>725</b>	<b>1,800</b>

### 9 FINANCE COSTS – NET

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest income	325	1,503
Interest expenses		
– Bonds	–	(637)
– Note	(4,205)	(6,246)
– Bank borrowings	(3,287)	(2,446)
– Convertible bonds	(33)	(530)
– Interest expense on lease liabilities	(223)	(142)
	<hr/>	<hr/>
	<b>(7,748)</b>	<b>(10,001)</b>
Finance costs – net	<b>(7,423)</b>	<b>(8,498)</b>

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

### 10 INCOME TAX EXPENSE

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

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

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

No provision for profits tax in Hong Kong has been made as the Group has no income assessable for profits tax in Hong Kong during the six months ended 30 June 2021.

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Company Limited ("Ludao PRC"), an indirectly wholly-owned subsidiary of the Company, was qualified as a High and New Technology Enterprise, and accordingly, it is entitled to a preferential rate of 15% for the three years from 4 December 2019 to 3 December 2022.

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current income tax	<b>6,573</b>	7,070
Deferred income tax	<b>(2)</b>	10
	<b>6,571</b>	7,080

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

### 11 EARNINGS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>(Unaudited)</b>	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share (RMB'000)	<u>24,293</u>	<u>28,740</u>
Add: interest savings on convertible bonds (RMB'000) (Note)	<u>N/A</u>	<u>N/A</u>
Profit for the period attributable to owners of the Company for the purposes of diluted earnings per share (RMB'000)	<u>24,293</u>	<u>28,740</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands of shares)	<u>491,800</u>	<u>491,800</u>
Effect of dilutive potential ordinary shares: – Convertible bonds (thousands of shares) (Note)	<u>N/A</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands of shares)	<u>491,800</u>	<u>491,800</u>

Note:

There is no dilutive effect on the convertible bonds as they are anti-dilutive.

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

### 12 RIGHT-OF-USE ASSETS/PROPERTY, PLANT AND EQUIPMENT

#### (a) Right-of-use assets

During the six months ended 30 June 2021, the Group had not entered into any new significant lease agreement.

#### (b) Property, plant and equipment

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Net book amount as at 1 January (Audited)	<b>281,071</b>	95,487
Addition	<b>71,595</b>	31,290
Additions through step acquisition from associates to subsidiaries	-	163,626
Disposal	<b>(73)</b>	(103)
Depreciation provided during the period/year	<b>(4,175)</b>	(9,323)
Depreciation eliminated on disposal	-	94
	<hr/>	<hr/>
Net book amount as at 30 June (Unaudited)/31 December (Audited)	<b>348,418</b>	281,071

As at 30 June 2021, the Group's buildings with the carrying amount of RMB10,759,000 (31 December 2020: RMB10,759,000) were pledged to secure notes payable.

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

### 13 TRADE AND OTHER RECEIVABLES

	<b>30 June 2021 RMB'000 (Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Trade receivables, net (a)	<b>145,873</b>	101,109
Other receivables	<b>15,881</b>	7,888
Prepayment and deposits	<b>84,039</b>	100,692
	<b>245,793</b>	209,689

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2021 and 31 December 2020 respectively.

#### (a) Trade receivables

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

	<b>30 June 2021 RMB'000 (Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Up to 3 months	<b>120,972</b>	70,044
3 to 6 months	<b>20,626</b>	28,666
6 to 12 months	<b>4,938</b>	1,792
	<b>149,124</b>	104,302
Loss allowance for impairment	<b>(3,251)</b>	(3,193)
	<b>145,873</b>	101,109

The Group's sales are mainly made to several major customers and there is a concentration of credit risks. Sales of goods to the top five customers constituted approximately 64% (31 December 2020: 64%) of the Group's revenue for the period. They accounted for approximately 69% (31 December 2020: 77%) of the gross trade receivable balances as at 30 June 2021.

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

### 14 SHARE CAPITAL

	<b>30 June 2021 (Unaudited) and 31 December 2020 (Audited)</b>	
	<b>Number of shares (thousands)</b>	HK\$'000
Authorised Capital:		
Ordinary shares of HK\$0.01 each	<b>2,000,000</b>	20,000
	<b>Number of ordinary shares (of HK\$0.01 each)</b>	RMB'000
Issued and fully paid:		
At 1 January 2020, 30 June 2020 (Unaudited), 31 December 2020 (Audited) and 30 June 2021 (Unaudited)	<b>491,800,000</b>	3,901

All shares issued rank pari passu against each other.

### 15 TRADE AND OTHER PAYABLES

	<b>30 June 2021 RMB'000 (Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Trade payables (a)	<b>108,615</b>	78,978
Notes payable (b)	<b>103,768</b>	117,848
Other tax payables	<b>3,787</b>	–
Accrued expenses	<b>5,571</b>	6,296
Other payables	<b>19,873</b>	10,776
	<b>241,614</b>	213,898

The fair values of trade and other payables approximated to their carrying values as at 30 June 2021 and 31 December 2020 respectively.



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

### 15 TRADE AND OTHER PAYABLES *(Continued)*

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

	<b>30 June 2021 RMB'000 (Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Up to 3 months	<b>80,577</b>	77,952
3 to 6 months	<b>24,384</b>	765
6 to 12 months	<b>3,654</b>	261
Over 12 months	—	—
	<b>108,615</b>	<b>78,978</b>

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

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

### 16 NOTE

	<b>30 June 2021 RMB'000 (Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Current	<b>65,390</b>	84,019

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 ("the Guarantor") and is secured by a share charge over 25% equity interest in Ever Clever Group Limited ("Ever Clever").

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

### 16 NOTE *(Continued)*

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 (the "Parties"), entered into a supplemental deed ("First Supplemental Deed") in relation to the extension of maturity date of the Note from 30 May 2020 to 30 May 2021. The Company 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 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.

During the period ended 30 June 2021, the Parties entered into a second supplemental deed ("Second Supplemental Deed") in relation to the extension of maturity date of the Note from 30 May 2021 to 15 March 2022. The Company redeemed a portion of the Note in the principal amount of HKD20,000,000, and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 May 2021. The Company also agreed to redeem another portion of the Note in the principal amount of HKD20,000,000, and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 30 November 2021.

The Company may at any time before the respective 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 payable by the Company to noteholder accrued up to the date of such early redemption.

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

### 17 CONVERTIBLE BONDS/CONVERTIBLE BONDS, MATURED/FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Pursuant to the sale and purchase agreement dated 29 November 2017 (the "Sale and Purchase Agreement"), the Company issued convertible bonds with an aggregate principal amount of RMB32,000,000 (equivalent to HKD37,760,000) (the "Convertible Bonds") to the Perfect Century Group Limited (the "Vendor") as part of the consideration for the acquisition of 25% equity interest of the issued share capital of Ever Clever in respect of the Sale and Purchase Agreement entered into between Prosper One Development Limited (the "Purchaser"), a wholly-owned subsidiary of the Company and the Vendor. The Convertible Bonds is denominated in RMB, bears zero interest and was 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.

Pursuant to the terms of the Sale and Purchase Agreement, the Company has the right to cancel the Convertible Bonds in the aggregate principal sum of RMB32,000,000 (equivalent to HK\$37,760,000) in the event of a non-fulfillment of the profit guarantee provided by the Vendor.

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

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

The convertible option should be separated from the liability component and accounted for as a derivative liability (i.e. financial liabilities at fair value through profit or loss) with subsequent changes in fair value recognised in profit or loss. It was because the host contract (i.e. liability component) was denominated in a currency (i.e. RMB) which was not the functional currency (i.e. HKD) of the Company. Hence, this does not meet the fixed for fixed criteria. The fair values at the date of issuance and as at 31 December 2019 and 2020 were assessed by an independent valuer, was calculated using the binomial options pricing model. There were changes in the fair value of derivative component to the issuance date and the end of reporting period that recognised in profit or loss of during the period ended 30 June 2020. No changes in the fair value was recorded during the period ended 30 June 2021 as there is no such derivative component upon the maturity of the Convertible Bonds.

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

### 17 CONVERTIBLE BONDS/CONVERTIBLE BONDS, MATURED/FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

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

	<b>Liability component</b> <i>RMB'000</i>	<b>Derivative component</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2020 (Audited)	33,426	2,472	35,898
Interest charge	870	–	870
Change in fair value	–	(2,472)	(2,472)
At 31 December 2020 (Audited)	34,296	–	34,296
Interest charge	33	–	33
At 30 June 2021 (Unaudited)	34,329	–	34,329

### 18 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2021 (2020: nil).

### 19 CONTINGENT LIABILITIES

As at 30 June 2021, the Group and the Company had no significant contingent liabilities (31 December 2020: nil).

### 20 COMMITMENTS

#### (a) Capital commitments

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

	<b>30 June 2021</b> <b>RMB'000</b> <b>(Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Property, plant and equipment	<b>173,492</b>	250,921

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which a Director or a controlling shareholder of the Company had a material interest, either directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period and there were no transactions, arrangements or contracts of significance for the provision of services to the Group by the controlling shareholder of the Company.

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

As at 30 June 2021, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

#### Long positions in shares and underlying shares of the Company:

Name of Director	Number of Ordinary Shares			Approximate percentage of interests in the Company (Note 1)
	Personal Interests	Interest of a controlled corporation (Note 2)	Total	
Mr. Yu Yuerong ("Mr. Yu")	–	240,812,000 (Note 2)	240,812,000	48.97%
Mr. Wang Xiaobing	1,200,000	–	1,200,000	0.24%

*Notes:*

- (1) These percentages have been compiled based on the total number of issued shares (i.e. 491,800,000 shares) as at 30 June 2021.
- (2) These shares are held by Ludao Investments, which is wholly and beneficially owned by Mr. Yu.

## SHARE OPTION SCHEME

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

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the Shareholders passed on 16 September 2013 are set out below:

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

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

- (a) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of our Group; and
- (b) attract and retain or otherwise maintain ongoing business relationships with the Eligible participants whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, “Eligible Participant(s)” means any person who satisfies the eligibility criteria in below. The Board may at its discretion grant options to:

- (i) any Eligible Employees. “Eligible Employees” means employees (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital (“Invested Entity”);
- (ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
- (iii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iv) any customer of any member of our Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

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

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

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

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 40,000,000 Shares, representing 10% of the total number of Shares in issue as at the date of adopting the Share Option Scheme unless the Company obtains a fresh approval from the Shareholders.

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting of the Company.

The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which may be determined and notified by the board of Directors to the grantee at the time of making an offer which shall not expire later than 10 years from the offer date.

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

As at 30 June 2021 and to the date of this report, the Company does not have any share options outstanding for issue under the Share Option Scheme.



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

As at 30 June 2021, the following persons or corporations (other than a Director or chief executive of the Company), other than those disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or the Associated Corporations", had notified the Company of its interests and/or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept under Section 336 of the SFO:

### Long position in the shares and underlying shares of the Company

Name of Shareholders	Capacity/ Nature of interests	Total number of ordinary shares and underlying shares (Note 1)	Approximate percentage of interests of the Company (Note 2)
Ludao Investments (Note 3)	Beneficial Owner	240,812,000	48.97%
Ms. Wang Jinfei (Note 3)	Interest of spouse	240,812,000	48.97%
Perfect Century Group Limited (Note 4)	Beneficial Owner	35,400,000	7.20%

#### Notes:

- All the interests represent long positions.
- These percentages have been compiled based on the total number of issued shares (i.e. 491,800,000 shares) as at 30 June 2021.
- Ludao Investments is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Yu, the chairman and an executive Director. 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.
- 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, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2021.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their respective associates is or was interested in any business apart from the Group's business, which competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the Reporting Period and up to and including the date of this report.

Each of Mr. Yu and Ludao Investments (hereinafter referred to as the "Controlling Shareholders"), had entered into a deed of non-competition dated 16 September 2013 (the "Deed of Non-competition") in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/its associates not to hold (other than through the Group or in respect of each covenantor (together with his/its associates), more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by the Group from time to time, except where the Company's approval is obtained.

In order to ensure the Controlling Shareholders have complied with the Deed of Non-competition, each of the Controlling Shareholders has provided to the Company a written confirmation (i) in respect of his/its compliance with the Deed of Non-competition for the Reporting Period and no personal interests were ever declared by any Controlling Shareholders who are also Directors at the Directors' meetings; and (ii) stating that they have not entered into any business which may be in competition with the business carried on by the Group from time to time. As there was no change in terms of the undertaking since the Company's listing on the Stock Exchange, the Board is of the view that the Controlling Shareholders have complied with the Deed of Non-competition and no matters are required to bring to the attention to the public.

## ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in paragraph headed "Share Option Scheme" of this report, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any Directors of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of directors of the Company during the Reporting Period and up to the date of this report is set out below:

In order to reflect the commitment of the executive Directors and reduce expenses given the current challenging business environment from the impact of Sino-US trade conflict and COVID-19 epidemic, the Board announced that all existing executive Directors have taken the initiative to implement a temporary 25% voluntary reduction of their remuneration for the period from August 2020 to June 2021.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established with written terms of reference which has been adopted for the purpose of making recommendations to the Board on the appointment, re-appointment and removal of the external independent auditor, and question any of its resignation or dismissal. It is also responsible for reviewing and providing supervision on the financial reporting process, risk management and internal controls procedures of the Group. The Audit Committee currently comprises of three independent non-executive Directors, namely Mr. Chan Yin Tsung (being the chairman of the Audit Committee), Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed internal controls and risk management review and process and financial reporting matters. The Audit Committee has also reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021.

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) reviews the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. The Nomination Committee currently comprises of four members, being three are independent non-executive Directors, namely, Ms. Yau Kit Kuen Jean (being the chairlady of the Nomination Committee), Mr. Chan Yin Tsung, Mr. Ruan Lianfa and one executive Director, Mr. Yu.

## CORPORATE GOVERNANCE FUNCTIONS

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

## CORPORATE GOVERNANCE PRACTICES

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

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Yu Yuerong (“Mr. Yu”), the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Yu has considerable experience and established market reputation in the industry, and the importance of Mr. Yu in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct of the Group regarding Directors’ securities transactions for the six months ended 30 June 2021. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the required standard set out in the Model Code during the Reporting Period.

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

Hong Kong  
27 August 2021