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## **China Ludao Technology Company Limited**

**中國綠島科技有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2023)**

### **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022**

#### **INTERIM RESULTS**

The board (the “Board”) of directors (“Directors”) of China Ludao Technology Company Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2021. These unaudited interim results have been reviewed by the Company’s audit committee (the “Audit Committee”) and approved by the Board on 30 August 2022.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	5	221,566	312,135
Cost of sales	6	(186,963)	(227,973)
<b>Gross profit</b>		<b>34,603</b>	84,162
Other income and other gains	5	27,707	1,178
Selling expenses	6	(6,386)	(13,740)
Administrative expenses	6	(25,494)	(33,343)
<b>Operating profit</b>		<b>30,430</b>	38,257
Finance income	7	178	325
Finance costs	7	(5,623)	(7,748)
Finance costs – net		(5,445)	(7,423)
Share of results of a joint venture		1,503	(28)
<b>Profit before income tax</b>		<b>26,488</b>	30,806
Income tax expense	8	(4,665)	(6,571)
<b>Profit for the period</b>		<b>21,823</b>	24,235
<b>Other comprehensive income (expenses)</b>			
Items that may be reclassified to profit or loss:			
Currency translation differences		6,622	(6,833)
Other comprehensive income (expenses) for the period, net of tax		6,622	(6,833)
<b>Total comprehensive income for the period</b>		<b>28,445</b>	17,402
Profit for the period attributable to:			
Owners of the Company		21,823	24,293
Non-controlling interests		–	(58)
		21,823	24,235
Total comprehensive income for the period attributable to:			
Owners of the Company		28,445	17,460
Non-controlling interests		–	(58)
		28,445	17,402
<b>Earnings per share for profit attributable to owners of the Company</b>			
– basic and diluted (RMB per share)	9	0.04	0.05

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2022*

		30 June 2022	31 December 2021
	<i>Notes</i>	<b>RMB'000</b> <b>(Unaudited)</b>	<b>RMB'000</b> <b>(Audited)</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>315,781</b>	278,944
Prepayments for construction in progress, property, plant and equipment		<b>229,447</b>	188,275
Right-of-use assets	<i>10</i>	<b>49,335</b>	49,362
Investment property		<b>12,000</b>	12,000
Intangible assets		<b>424</b>	183
Investment in a joint venture		<b>56,003</b>	54,500
Deferred income tax assets		<b>54</b>	54
Financial assets at amortised cost		<b>1,000</b>	–
Trade and other receivables	<i>11</i>	<b>87</b>	83
		<hr/> <b>664,131</b>	<hr/> 583,401
<b>Current assets</b>			
Inventories		<b>56,477</b>	56,863
Trade and other receivables	<i>11</i>	<b>236,657</b>	234,962
Pledged bank deposits		<b>35,020</b>	34,271
Cash and cash equivalents		<b>90,775</b>	24,259
		<hr/> <b>418,929</b>	<hr/> 350,355
<b>Total assets</b>		<hr/> <b>1,083,060</b>	<hr/> <b>933,756</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	<i>12</i>	<b>3,901</b>	3,901
Share premium		<b>150,143</b>	150,143
Other reserves		<b>(35,017)</b>	(37,216)
Retained earnings		<b>282,752</b>	260,928
		<hr/> <b>401,779</b>	<hr/> 377,756
<b>Non-controlling interests</b>		<hr/> <b>2,014</b>	<hr/> 2,014
<b>Total equity</b>		<hr/> <b>403,793</b>	<hr/> <b>379,770</b>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

*As at 30 June 2022*

		<b>30 June 2022</b>	31 December 2021
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
		<b>(Unaudited)</b>	(Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bank borrowings		<b>200,000</b>	–
Convertible bonds	<i>15</i>	<b>73,141</b>	69,925
Lease liabilities		<b>1,700</b>	1,678
Deferred income tax liabilities		<b>8,295</b>	8,310
Deferred government grants		<b>352</b>	352
		<hr/> <b>283,488</b>	<hr/> 80,265
<b>Current liabilities</b>			
Trade and other payables	<i>13</i>	<b>152,196</b>	163,301
Contract liabilities		<b>22,119</b>	21,623
Current income tax liabilities		<b>4,533</b>	–
Bank borrowings		<b>170,668</b>	234,579
Note	<i>14</i>	<b>41,907</b>	49,876
Lease liabilities		<b>4,356</b>	4,342
		<hr/> <b>395,779</b>	<hr/> 473,721
<b>Total liabilities</b>		<hr/> <b>679,267</b>	<hr/> 553,986
<b>Total equity and liabilities</b>		<hr/> <b>1,083,060</b>	<hr/> 933,756

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1 BASIS OF PREPARATION

This unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## 2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2021, 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 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19 – Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 Cycle

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 2022. The Group has not applied any new standard or interpretation which is not yet effective for the current accounting period.

## 3 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 2021.

#### 4 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	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Mainland China	157,255	125,395
United States of America	35,847	66,318
Chile	20,367	106,966
Europe	–	141
Others	8,097	13,315
	<u>221,566</u>	<u>312,135</u>

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 2022 and 31 December 2021.

##### 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	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Customer A	41,390	n/a
Customer B	20,048	105,858
Customer C	15,464	61,378
Customer D	14,682	20,250
Customer E	13,178	n/a
	<u>104,762</u>	<u>187,486</u>

n/a Revenue from the customer was less than 5% of the Group’s revenue for the six months period ended 30 June 2022 and 30 June 2021.

## 5 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<b>Revenue</b>		
Sales of goods	<u>221,566</u>	<u>312,135</u>
<b>Other income and other gains</b>		
Government grants	16,779	1,104
Foreign exchange gain	10,617	–
Others	<u>311</u>	<u>74</u>
	<u>27,707</u>	<u>1,178</u>

## 6 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation and amortisation	6,951	5,774
Employee benefit expenses, excluding amount including in research and development costs	15,318	25,955
Raw materials used	178,281	207,834
Changes in inventories of finished goods and work in progress	(4,367)	(284)
Water and electricity expenditures	1,895	2,133
Transportation and travelling expenses	2,466	9,265
Telecommunication expenses	112	112
Advertising costs	277	45
Other tax expenses	1,280	583
Research and development costs		
– Employee benefit expenses	4,129	5,619
– Materials and others, excluding depreciation and amortisation	3,721	6,967
Entertainment expenses	450	593
Auditor's remuneration		
– Audit service	843	581
Professional services fee	3,111	1,738
Other expenses	<u>4,376</u>	<u>8,141</u>
Total	<u>218,843</u>	<u>275,056</u>

## 7 FINANCE COSTS – NET

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	<u>178</u>	<u>325</u>
Interest expenses		
– Note	(1,691)	(4,205)
– Bank borrowings	(1,550)	(3,287)
– Convertible bonds	(2,269)	(33)
– Interest expense on lease liabilities	<u>(113)</u>	<u>(223)</u>
	<u>(5,623)</u>	<u>(7,748)</u>
Finance costs – net	<u>(5,445)</u>	<u>(7,423)</u>

## 8 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 2022.

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.

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	4,680	6,573
Deferred income tax	<u>(15)</u>	<u>(2)</u>
	<u>4,665</u>	<u>6,571</u>

## 9 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>2022</b>	2021
	<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>21,823</u>	<u>24,293</u>
Add: interest savings on convertible bonds (RMB'000) ( <i>Note</i> )	<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><u>21,823</u></u>	<u><u>24,293</u></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) ( <i>Note</i> )	<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><u>491,800</u></u>	<u><u>491,800</u></u>

### *Note:*

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

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

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

During the six months ended 30 June 2022, the Group had not entered into any new significant lease agreement.

### (b) Property, plant and equipment

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Net book amount as at 1 January (Audited)	278,944	281,071
Addition	41,299	9,284
Disposal	(117)	(1,733)
Depreciation provided during the period/year	(4,450)	(11,246)
Depreciation eliminated on disposal	105	1,568
	<hr/>	<hr/>
Net book amount as at 30 June (Unaudited)/ 31 December (Audited)	<b>315,781</b>	278,944
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2022, the Group's buildings with the carrying amount of RMB284,224,000 (31 December 2021: RMB232,410,000) were pledged to secure notes payable and bank borrowings.

## 11 TRADE AND OTHER RECEIVABLES

	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
<b>Non-current</b>		
Deposits	87	83
	<hr/>	<hr/>
<b>Current</b>		
Trade receivables, net (a)	141,296	96,800
Other receivables	21,095	3,486
Prepayment and deposits	74,266	134,676
	<hr/>	<hr/>
	236,657	234,962
	<hr/>	<hr/>
	<b>236,744</b>	235,045
	<hr/> <hr/>	<hr/> <hr/>

The fair values of trade and other receivables approximate to their carrying values as at 30 June 2022 and 31 December 2021 respectively.

(a) **Trade receivables**

The credit period granted to customers is between 0 to 360 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Up to 3 months	114,954	55,126
3 to 6 months	20,299	7,008
6 to 12 months	8,535	36,009
Over 12 months	1,699	2,857
	<u>145,487</u>	<u>101,000</u>
Loss allowance for impairment	<u>(4,191)</u>	<u>(4,200)</u>
	<u>141,296</u>	<u>96,800</u>

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 47% (31 December 2021: 65%) of the Group's revenue for the period. They accounted for approximately 74% (31 December 2021: 68%) of the gross trade receivable balances as at 30 June 2022.

**12 SHARE CAPITAL**

	<b>30 June 2022 (Unaudited) and 31 December 2021 (Audited) Number of shares (thousands)</b>	<i>HK\$'000</i>
Authorised Capital: Ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>20,000</u>
	<b>Number of ordinary shares (of HK\$0.01 each)</b>	<i>RMB'000</i>
Issued and fully paid: At 1 January 2021, 30 June 2021 (Unaudited), 31 December 2021 (Audited) and 30 June 2022 (Unaudited)	<u>491,800,000</u>	<u>3,901</u>

All shares issued rank pari passu against each other.

### 13 TRADE AND OTHER PAYABLES

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Trade payables (a)	73,537	63,318
Notes payable (b)	61,408	84,243
Other tax payables	9,922	2,028
Accrued expenses	4,872	5,011
Other payables	2,457	8,701
	<u>152,196</u>	<u>163,301</u>

The fair values of trade and other payables approximated to their carrying values as at 30 June 2022 and 31 December 2021 respectively.

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

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Up to 3 months	50,647	38,878
3 to 6 months	16,271	15,299
6 to 12 months	6,619	7,230
Over 12 months	–	1,911
	<u>73,537</u>	<u>63,318</u>

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.

14 NOTE

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Current	<u><b>41,907</b></u>	<u>49,876</u>

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”).

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 year ended 31 December 2021, the Company, Prosper One, Mr. Yu and the Note Purchaser entered into a second supplemental deed (“Second Supplemental Deed”) in relation to the further extension of maturity date of the remaining portions of the Note that were yet to be redeemed from 30 May 2021 to 15 March 2022. The Company has redeemed a portion of the Note in the principal amount of HKD20,000,000 (equivalent to approximately RMB16,632,000), 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 has undertaken to redeem another portion of the Note in the principal amount of HKD20,000,000 (equivalent to approximately RMB16,632,000), 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, which was early settled by the Company in October 2021.

During the period ended 30 June 2022, the Parties entered into a third supplemental deed (“Third Supplemental Deed”) in relation to the extension of maturity date of the Note from 15 March 2022 to 15 March 2023. The Company redeemed a portion of the Note in the principal amount of HKD12,000,000, and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 15 March 2022. The Company also has undertaken to redeem another portion of the Note in the principal amount of HKD8,000,000 not later than 15 September 2022. Upon redemption of the said portion, a principal amount of HK\$40,000,000 of the Note, together with any interest and administrative fees that may accrue, will remain due and payable on or before 15 March 2023.

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 payables by the Company to noteholder accrued up to the date of such early redemption.

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

- (a) 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 due 2021”) 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 due 2021 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 due 2021 holders shall have a right to convert the Convertible Bonds due 2021 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 due 2021 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 due 2021 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 due 2021 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 due 2021 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 due 2021 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 2020 and 2021 were assessed by an independent valuer, was calculated using the binomial options pricing model. 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 due 2021.

During the year ended 31 December 2021, the Company has obtained an order from the High Court of the Hong Kong Special Administrative Region, whereby the Company is entitled to cancel the Convertible Bonds due 2021.

- (b) On 4 October 2021, the Company completed the issuance of convertible bonds (the “Convertible Bonds due 2024”) in an aggregate principal amount of HK\$93,300,000 (equivalent to approximately RMB77,224,000).

The Convertible Bonds due 2024 is denominated in HKD, bear interest at the rate of 5.87% per annum, payable semi-annually in arrears, and will be matured on three years from the issue date. The holders of Convertible Bonds due 2024 shall have a right to convert the Convertible Bonds due 2024 into ordinary shares of the Company at the conversion price of HKD2.00 per share during the conversion period. The conversion price is subject to adjustment in the circumstances described under certain terms and conditions of the subscription agreement. The effective interest rate of the liability component of the Convertible Bonds due 2024 is 9.75% per annum.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

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

	Convertible Bonds due 2021		Convertible Bonds due 2024		Total RMB'000
	Liability component RMB'000	Derivative component RMB'000	Liability component RMB'000	Equity component RMB'000	
At 1 January 2021 (Audited)	34,296	–	–	–	34,296
Issuance of convertible bonds	–	–	69,152	7,176	76,328
Interest expense	33	–	1,645	–	1,678
Cancellation of convertible bonds	(34,329)	–	–	–	(34,329)
Foreign exchange movements	–	–	(872)	–	(872)
	<u>–</u>	<u>–</u>	<u>69,925</u>	<u>7,176</u>	<u>77,101</u>
At 31 December 2021 (Audited)	–	–	69,925	7,176	77,101
Interest expense	–	–	2,269	–	2,269
Foreign exchange movements	–	–	947	–	947
	<u>–</u>	<u>–</u>	<u>73,141</u>	<u>7,176</u>	<u>80,317</u>
At 30 June 2022 (Unaudited)	–	–	73,141	7,176	80,317

## 16 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2022 (2021: nil).

## 17 CONTINGENT LIABILITIES

As at 30 June 2022, the Group and the Company had no significant contingent liabilities (31 December 2021: nil).

## 18 COMMITMENTS

### (a) Capital commitments

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Property, plant and equipment	<u>181,720</u>	<u>164,888</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 Reporting Period, the world was still under the influence of the lingering COVID-19 Pandemic. Driven by a series of taxes and fees reduction measures and subsidies by the PRC authority, the economy in the PRC kept on growing. However, the first half of 2022 remained challenging for the Group. The raw material prices and the container freight rates maintained at a high level compared with those in the past. The container supply remained tight, and the product price competition was intense. To cope with these challenges, the Group strengthened the strategic cooperation relationship with customers and adjusted strategies to actively explore domestic market and develop high value-added products based on its solid foundation built over the years and its innovation capacities. These measures aimed to increase the bargaining room for the Group’s products. Despite such efforts, the CMS and OBM businesses of the Group both decreased by 31.5% and 7.9% respectively as compared with 2021 due to the overall unsatisfied environment. In the second half of the year, the Group will continue to explore different platform and channel and the domestic market to improve turnover of our products and continue to focus on research and development, manufacturing and sales of medical and edible aerosol products to increase market shares on this sector.

For the six months ended 30 June 2022, the revenue and net profit of the Group were approximately RMB221.6 million and RMB21.8 million respectively, representing a decrease of approximately 29.0% and decrease of 10.0% as compared with that of in the corresponding period of 2021. The earnings per share for profit attributable to owners of the Company was RMB0.04 during the Reporting Period which represents a decrease of RMB0.01 as compared with the earnings per share of RMB0.05 for the corresponding period of last year.

## **Financial Review**

### ***Turnover***

#### ***CMS***

For the six months ended 30 June 2022, the turnover of the Group's CMS business was approximately RMB191.2 million (2021: RMB279.1 million), representing a decrease of approximately 31.5% as compared with that of in the corresponding period of 2021.

During the Reporting Period, the world was still under the influence of the lingering COVID-19 pandemic. In the face of sharp prices in raw materials, continuing high freight rates and tight supply of containers, the management and production capacities of the Group were severally challenged. The Group leveraged its solid development foundation built over the years and its continuous enterprise innovation capacities to, on top of strengthening the partnerships with strategic customers, adjust strategies, actively explore domestic market and proactively develop high value-added products, so as to increase the bargaining room of the Group's products. However, due to the unfavourable international environment, the CMS business of the Group decreased over the last period. In the second half of the year, the Group will continue to consolidate its existing market share of CMS and explore market shares in other countries in order to strive for growth of CMS business.

#### ***OBM***

The turnover for OBM business of the Group for the six months ended 30 June 2022 was approximately RMB30.4 million (2021: RMB33.0 million), representing a decrease of approximately 7.9% as compared with that of in the corresponding period in 2021.

The world was still under the influence of the lingering COVID-19 pandemic and global supply chains are materially affected. In the face of continuing high prices in raw materials and negative impact on the business environment, transport and staff travel, the Group adjusted strategies by actively exploring domestic market and proactively developing high value-added products, to increase the bargaining room of the Group's products. However, the OBM business of the Group decreased over the last period due to continuing intense product price competition in the domestic market. In the second half of the year, the Group will focus on research and development of products and continue to explore different platform and channel to improve turnover of products.

#### ***Cost of Sales***

Cost of sales of the Group for the six months ended 30 June 2022 was approximately RMB187.0 million (2021: RMB228.0 million), representing a decrease of approximately 18.0% as compared with that of in the corresponding period of 2021. The decrease was due to the reduction of sales volume.

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

For the six months ended 30 June 2022, the Group recorded gross profit of approximately RMB34.6 million (2021: approximately RMB84.2 million) and the gross profit margin was approximately 15.6% (2020: 27.0%). The decrease in gross profit margin was mainly due to the increase in raw materials costs, higher transportation costs and price competition between disinfection products providers during the Reporting Period.

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

Other income and other gains of the Group for the six months ended 30 June 2022 was approximately RMB27.7 million (2021: approximately RMB1.2 million), representing an increase of approximately RMB26.5 million as compared with that of in the corresponding period of 2021. Such increase was primarily due to the increase of government grants income and gain on foreign exchange was recorded 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 2022, selling expenses was approximately RMB6.4 million (2021: approximately RMB13.7 million), representing a decrease of approximately 53.5% as compared with that of in the corresponding period of 2021. The decrease was in line with the reduction of sales volume.

#### ***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 2022, administrative expenses was approximately RMB25.5 million (2021: approximately RMB33.3 million), representing a decrease of approximately 23.5% as compared with that of in the corresponding period of 2021. The decrease in administrative expenses was primarily due to a decrease in staff salaries and benefit expenses and travelling and transportation expenses.

#### ***Finance Costs – net***

For the six months ended 30 June 2022, the Group recorded net finance cost of approximately RMB5.4 million (2021: approximately RMB7.4 million), representing a decrease of approximately 26.6% as compared with that of in the corresponding period of 2021. The decrease in finance costs was primarily due to the decrease in interest expenses from note and bank borrowings during the Reporting Period.

### ***Income Tax Expense***

The income tax expense of the Group for the six months ended 30 June 2022 was approximately RMB4.7 million, representing a decrease of approximately RMB1.9 million as compared with approximately RMB6.6 million for the corresponding period of 2021, which was mainly due to the reduction of profit.

### ***Profit for the period***

The Group recorded profit for the six months ended 30 June 2022 of approximately RMB21.8 million (2021: approximately RMB24.2 million), representing a decrease of approximately RMB2.4 million as compared with that of in the corresponding period of 2021. Such decrease was primarily due to the effect of price competition in disinfection products, reduction of sales volume 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 RMB315.8 million as at 30 June 2022 compared to approximately RMB278.9 million as at 31 December 2021. Such increase was due to the Group had acquired property, plant and equipment of approximately RMB41.3 million during the Reporting Period. 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 2022, the Group's prepayments for construction in progress, property, plant and equipment was approximately RMB229.4 million (31 December 2021: RMB188.3 million). The increase of approximately RMB41.1 million was due to further advanced payment made in construction in progress related to the development of production plant in the PRC.

#### ***Inventories***

As at 30 June 2022, the inventories decreased by 0.7% to approximately RMB56.5 million (31 December 2021: approximately RMB56.9 million). This was mainly due to the improvement of inventories production schedule and quantity control by the Group and reduction of sales volume during the Reporting Period.

#### ***Trade Receivables***

As at 30 June 2022, trade receivables of approximately RMB10.0 million were past due, remained the same as compared to the amount of RMB10.0 million as at 31 December 2021. The amount of the impairment provision was approximately RMB4.2 million (31 December 2021: RMB4.2 million).

## **Liquidity and Financial Resources**

As at 30 June 2022, the total assets of the Group amounted to approximately RMB1,083.1 million (31 December 2021: approximately RMB933.8 million), and the net current assets of approximately RMB23.2 million (31 December 2021: net current liabilities of approximately RMB123.4 million) and the Group's cash and bank deposits totalled approximately RMB125.8 million (31 December 2021: approximately RMB58.5 million). The current ratio of the Group increased from 0.74 as at 31 December 2021 to 1.06 as at 30 June 2022.

The equity attributable to shareholders of the Company as at 30 June 2022 amounted to approximately RMB401.8 million (31 December 2021: approximately RMB377.8 million). The gearing ratio (based on the total debt over the total equity) of the Group increased from 115% as at 31 December 2021 to 135% as at 30 June 2022 due to the increase of long term bank borrowing.

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

As at 30 June 2022, note of RMB41.9 million (31 December 2021: RMB49.9 million) was secured by the 2,500 shares in Ever Clever Group Limited ("Ever Clever") by the Group. Bank borrowings of RMB370.7 million (31 December 2021: RMB234.6 million) and notes payable of RMB61.4 million (31 December 2021: RMB84.2 million) were secured by our properties, plant and equipment, land use rights, investment property and pledge bank deposits with an aggregate carrying amount of RMB373.1 million (31 December 2021: RMB320.9 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 2022, the Group had capital commitments of approximately RMB181.7 million in respect of property, plant and equipment (31 December 2021: approximately RMB164.9 million).

The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of approximately RMB0.2 million within one year (31 December 2021: approximately RMB0.4 million).

## **Contingent Liabilities**

As at 30 June 2022, the Group did not have any significant contingent liabilities (31 December 2021: nil).

## **Exchange Rate Exposure**

During the six months ended 30 June 2022, 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 2022 (2021: nil).

## **Employees and Emoluments Policy**

As at 30 June 2022, the Group had employed a total of 451 employees in the PRC and Hong Kong (31 December 2021: 430). The Group offers comprehensive and competitive remuneration, retirement scheme, a share options scheme and benefit package to its employees. The emoluments of Directors have been determined with reference to the skills, knowledge, and involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the Reporting Period. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group will review the remuneration policy and related packages on a regular basis.

## **Significant Investment Held**

During the Reporting Period, the Group invested in RMB41.3 million in property, plant and equipment and RMB41.1 million in prepayments for construction in progress, property, plant and equipment (31 December 2021: RMB9.3 million and RMB121.6 million respectively).

Other than the above, the Group did not have any significant investments as at 30 June 2022.

## **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 Group Limited (the “Ever Clever”), together with its subsidiaries (the “EC Group”). Further reference is also made to the announcements of the Company dated 23 August 2018, 4 September 2018, 25 October 2019, 17 January 2020, 20 August 2022, 16 September 2020 and 2 November 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 Perfect Century Group Limited (the “EC Vendor”) and 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company\*) (the “HGRL”) to request the audited financial statements of HGRL in accordance with the sale and purchase agreement dated 29 November 2017 (the “EC Agreement”) 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.

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, 31 March 2019 and 31 March 2020.

In November 2020, the Group has taken actions to enforce the share charge over 2,500 shares in Ever Clever against the EC Vendor and notified the EC Vendor of the same, subject to completion of the relevant registration and filing requirements. To enforce the EC Agreement, the Company and Prosper One Development Limited (the “Purchaser”) acted as plaintiffs to issued a writ of summons 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, an order requiring the EC Vendor to deliver the audited financial statements of HGRL and a declaration that the Company and the Purchaser are entitled to cancel and avoid the convertible bonds issued by the Company.

As the Group did not receive any replies from the EC Vendor to the writ of summons, the Company and the Purchaser sought to obtain a default judgment against the EC Vendor. On 21 December 2021, the High Court of Hong Kong gave a judgment in favour of the Company and the Purchaser and ordered the EC Vendor to pay damages totaling RMB2,827,500,000 to the Company and the Purchaser. The High Court also ordered the EC Vendor to deliver the audited financial statements of HGRL and declared that the Company and the Purchaser were entitled to cancel and avoid the convertible bonds issued by the Company to the EC Vendor. As at the date of this announcement, no notice of appeal against the default judgment or application for setting-aside the default judgment has been served on the Company or the Purchaser.

## **FUND RAISING ACTIVITY**

Save as disclosed below, the Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2022 and up to the date of this announcement.

### **Placing of convertible bonds**

On 15 September 2021 (after the trading hours of the Stock Exchange), the Company entered into a placing agreement (the “Placing Agreement”) with Essence International Securities (Hong Kong) Limited (the “Placing Agent”). Pursuant to the Placing Agreement, the Placing Agent has conditionally agreed to procure, on a best effort basis, not less than six (6) placees who and whose ultimate beneficial owners shall be independent third parties to subscribe, in cash, for a three-year 5.87% coupon unlisted convertible bond(s) in an aggregate principal amount of not less than HK\$90,000,000 and not more than HK\$120,000,000 (the “Convertible Bonds”) to be issued by the Company pursuant to the Placing Agreement (the “Placing”).

On 4 October 2021, the conditions precedent of the Placing Agreement have been fulfilled and completion of the Placing Agreement took place on even date. The Convertible Bonds in an aggregate principal amount of HK\$93,300,000 have been issued to Essence International Advanced Products and Solutions SPC – Essence Smok Fund SP (the “Placee”). The net proceeds from the Placing of the Convertible Bonds (after deducting placing commission and other relevant costs and expenses) amounted to approximately HK\$92.2 million. The Placee is entitled to convert the Convertible Bonds into a maximum number of 46,650,000 ordinary shares of the Company at the conversion price of HK\$2.00 per conversion shares, subject to any adjustment events, during the conversion period commencing from the date falling one month immediately prior to the maturity date of the Convertible Bonds up to 4:00 pm. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date.

The net proceeds are intended to be used as to (i) approximately 51.4% for the construction of factories and plants; (ii) approximately 46.4% for the repayment of note and bank borrowings and (iii) approximately 2.2% for the general working capital of the Group. The net proceeds have been fully utilized for such purposes.

The Directors consider that the Placing will provide additional funding for the Group’s operation and business development during such difficult operation environment due to the outbreak of the COVID-19 and lockdown and disruption to economic activities in the Mainland and Hong Kong, strengthen the Group’s capital base and financial position and reduce its indebtedness in order to improve its gearing position.

Further details of the Placing, other principal terms of the Convertible Bonds and the reasons for the Placing are set out in the Company’s announcements dated 15 September 2021 and 4 October 2021.

## **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 identify other investment opportunities in the market.

## **EVENTS AFTER THE REPORTING PERIOD**

Save as disclosed in this announcement, there was no other important events affecting the performance of the Group that have occurred since 1 July 2022 and up to the date hereof.

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

During the six months ended 30 June 2022, 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 2022.

## **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 as below.

Pursuant to CG Code, 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.

## **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 2022. 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.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement will be published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company (<http://www.ludaocn.com>). The interim report of the Company for the six months ended 30 June 2022 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

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

30 August 2022

*As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yu Yuerong, Ms. Pan Yili, and Mr. Wang Xiaobing; and three independent non-executive Directors, namely Mr. Chan Yin Tsung, Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.*