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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 2024

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 2024 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2023. These unaudited interim results have been reviewed by the Company’s audit committee (the “Audit Committee”) and approved by the Board on 29 August 2024.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Notes	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue	5	552,976	406,358
Cost of sales		(487,672)	(340,684)
Gross profit		65,304	65,674
Other income and other gains	5	29,705	15,215
Selling expenses		(9,588)	(12,202)
Administrative and other operating expenses		(30,538)	(27,274)
Operating profit		54,883	41,413
Finance income	7	418	214
Finance costs	7	(9,285)	(7,715)
Finance costs – net	7	(8,867)	(7,501)
Share of results of a joint venture		(206)	116
Profit before income tax	6	45,810	34,028
Income tax expense	8	(4,193)	(3,775)
Profit for the period		41,617	30,253
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Currency translation differences		9,106	48,507
Other comprehensive income for the period, net of tax		9,106	48,507
Total comprehensive income for the period		50,723	78,760
Profit for the period attributable to:			
Owners of the Company		41,617	30,253
Non-controlling interests		–	–
		41,617	30,253
Total comprehensive income for the period attributable to:			
Owners of the Company		50,723	78,760
Non-controlling interests		–	–
		50,723	78,760
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	9	0.08	0.06

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	<i>Notes</i>	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	<i>10</i>	671,445	635,496
Prepayments for property, plant and equipment		134,888	134,888
Right-of-use assets	<i>10</i>	65,224	64,243
Investment property		–	–
Intangible assets		1,107	1,604
Investment in a joint venture		49,294	49,500
Financial asset at fair value through profit or loss		2,000	2,000
Deferred tax assets		2,028	2,028
		<hr/> 925,986	<hr/> 889,759
Current assets			
Inventories		54,171	48,635
Trade and other receivables	<i>11</i>	358,612	363,311
Income tax recoverable		1,263	292
Pledged bank deposits		60,231	55,435
Cash and cash equivalents		32,765	31,579
		<hr/> 507,042	<hr/> 499,252
Total assets		<hr/> 1,433,028	<hr/> 1,389,011
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	<i>12</i>	3,901	3,901
Share premium		150,143	150,143
Other reserves		(52,008)	(61,114)
Retained earnings		357,871	316,254
		<hr/> 459,907	<hr/> 409,184
Non-controlling interests		<hr/> 382	<hr/> 382
Total equity		<hr/> 460,289	<hr/> 409,566

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

As at 30 June 2024

		30 June 2024	31 December 2023
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Bank and other borrowings		319,847	311,114
Convertible bonds	<i>15</i>	–	–
Lease liabilities		2,084	1,388
Deferred tax liabilities		8,349	8,348
Deferred government grants		9,808	9,808
		<hr/> 340,088 <hr/>	<hr/> 330,658 <hr/>
Current liabilities			
Trade and other payables	<i>13</i>	205,138	231,968
Contract liabilities		16,352	16,352
Bank and other borrowings		320,611	310,859
Convertible bonds	<i>15</i>	83,828	83,235
Note	<i>14</i>	–	–
Lease liabilities		6,722	6,373
		<hr/> 632,651 <hr/>	<hr/> 648,787 <hr/>
Total liabilities		<hr/> 972,739 <hr/>	<hr/> 979,445 <hr/>
Total equity and liabilities		<hr/> 1,433,028 <hr/>	<hr/> 1,389,011 <hr/>

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 2024 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 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

As at 30 June 2024, the Group recorded net current liabilities of approximately RMB125,609,000 and placed reliance on short-term financing. These situations indicate the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, in view of the circumstances, the Directors have taken the following measures to mitigate the liquidity pressure and to improve its financial position:

- (a) the management of the Group has been endeavouring to improve the Group’s operating cash flows through implementing various cost control measures;
- (b) the Group has unutilised banking facilities as at 30 June 2024; and
- (c) subsequent to 30 June 2024, the Group has obtained additional bank facilities.

The Directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the date of approval of these consolidated financial statements taking into account the above-mentioned plans and measures, having considered the Group’s bank balances as at 30 June 2024 and the Group’s continuous net cash inflows from future operations and/or other sources, the Directors 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 date of approval of these consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on the basis that the Group will continue as a going concern.

2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2023, 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.

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 16	<i>Lease Liability in a Sale and Leaseback¹</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-Current¹</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants¹</i>
Amendments to HKAS 7	<i>Supplier Finance Arrangements¹</i>

¹ Effective for annual periods beginning on or after 1 January 2024.

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 2024. 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 2023.

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 and wholesales of personal care products and production related materials. The Group sells its products on contract manufacturing service basis to overseas and the People's Republic of China (the "PRC") market and on original brand manufacturing basis in the PRC market. All products are manufactured under the same production lines and distributed through distributors network. The Group wholesales the personal care products to business entities basis in PRC market. 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	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Mainland China	443,469	281,849
United States of America	33,541	55,675
Chile	46,936	51,504
Japan	6,514	5,917
Others	22,516	11,413
	<u>552,976</u>	<u>406,358</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, intangible assets and investment in a joint venture which are mainly located in the PRC as at 30 June 2024 and 31 December 2023.

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	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A	46,936	50,221
Customer B	43,947	n/a
Customer C	42,614	n/a
Customer D	30,450	n/a
Customer E	n/a	45,273
Customer F	n/a	27,527
	<u>163,947</u>	<u>123,021</u>

n/a Revenue from the customer was less than 5% of the Group's revenue for the six months periods ended 30 June 2024 and 30 June 2023.

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 recognised are as follows:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	<u>552,976</u>	<u>406,358</u>
Other income and other gains		
Technical service fee	–	2,925
Government grants	26,000	–
Foreign exchange gain	3,605	12,124
Others	<u>100</u>	<u>166</u>
	<u>29,705</u>	<u>15,215</u>

6 PROFIT BEFORE INCOME TAX

Profit before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation and amortisation	6,064	6,991
Employee benefit expenses, excluding amount including in research and development costs	27,048	24,194
Transportation and travelling expenses	4,117	5,890
Research and development costs (<i>Note</i>)		
– Employee benefit expenses	3,587	3,115
– Materials and others, excluding depreciation and amortisation	8,013	5,728
Auditor's remuneration		
– Audit service	1,088	1,396
Professional services fee	2,336	5,580
Short term lease expenses	2,224	962

Note: Research and development costs are not included in administrative and other operating expenses in the interim condensed consolidated statement of comprehensive income.

7 FINANCE COSTS – NET

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	418	214
Interest expenses		
– Note	–	(1,638)
– Bank and other borrowings	(6,631)	(3,523)
– Convertible bonds	(2,493)	(2,411)
– Interest expense on lease liabilities	(161)	(143)
	(9,285)	(7,715)
Finance costs – net	(8,867)	(7,501)

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 2024.

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 24 December 2022 to 23 December 2025.

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	4,193	3,775
Deferred income tax	—	—
	<hr/>	<hr/>
	4,193	3,775
	<hr/> <hr/>	<hr/> <hr/>

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:

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share (RMB'000)	<u>41,617</u>	<u>30,253</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>41,617</u></u>	<u><u>30,253</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 2024, the Group had not entered into any new significant lease agreement.

(b) Property, plant and equipment

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Net book amount as at 1 January (Audited)	635,496	515,737
Addition	40,535	119,051
Disposal	(2)	(72)
Transfer from investment property	–	12,100
Depreciation provided during the period/year	(4,584)	(11,320)
	<hr/>	<hr/>
Net book amount as at 30 June (Unaudited)/ 31 December (Audited)	<u>671,445</u>	<u>635,496</u>

As at 30 June 2024, the net book value of construction in progress of approximately RMB577,620,000 (31 December 2023: RMB537,085,000) related to buildings, plant and machinery and office furniture and equipment under construction in Taizhou, the PRC, which will be depreciated once the construction work is completed and available for use. The entire construction in progress project were pledged to secure bank borrowings.

As at 30 June 2024, the Group's buildings with the carrying amount of RMB10,112,000 (31 December 2023: RMB21,469,000) were pledged to secure notes payable and bank borrowings.

As at 30 June 2024, the Group's plant and machinery with an aggregate net carrying amount of RMB5,138,000 (31 December 2023: RMB5,745,000) were held under sale and leaseback liabilities.

11 TRADE AND OTHER RECEIVABLES

	30 June 2024 <i>RMB'000</i> (Unaudited)	31 December 2023 <i>RMB'000</i> (Audited)
Current		
Trade receivables, net (a)	190,344	193,767
Other receivables	18,213	27,759
Prepayment and deposits	150,055	141,785
	<hr/>	<hr/>
	<u>358,612</u>	<u>363,311</u>

The fair values of trade and other receivables approximated to their carrying values as at 30 June 2024 and 31 December 2023 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:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Up to 3 months	141,397	142,311
3 to 6 months	33,972	15,715
6 to 12 months	9,342	25,849
Over 12 months	14,574	18,833
	<u>199,285</u>	<u>202,708</u>
Loss allowance for impairment	<u>(8,941)</u>	<u>(8,941)</u>
	<u>190,344</u>	<u>193,767</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 30% (31 December 2023: 48%) of the Group's revenue for the period. They accounted for approximately 38% (31 December 2023: 67%) of the gross trade receivable balances as at 30 June 2024.

12 SHARE CAPITAL

	30 June 2024 (Unaudited) and 31 December 2023 (Audited)	
	Number of shares (thousands)	HK\$'000
Authorised Capital:		
Ordinary shares of HK\$0.01 each	<u>2,000,000</u>	<u>20,000</u>
	Number of ordinary shares (of HK\$0.01 each)	RMB'000
Issued and fully paid:		
At 1 January 2023, 30 June 2023 (Unaudited), 31 December 2023 (Audited) and 30 June 2024 (Unaudited)	<u>491,800,000</u>	<u>3,901</u>

All shares issued rank pari passu against each other.

13 TRADE AND OTHER PAYABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade payables (a)	66,438	121,182
Notes payable (b)	106,985	77,750
Deposit received from customers	–	1,876
Other tax payables	720	815
Accrued salaries and wages	5,457	3,439
Accrued interest	145	495
Accrued expenses and others	25,393	26,411
	205,138	231,968

The fair values of trade and other payables approximated to their carrying values as at 30 June 2024 and 31 December 2023 respectively.

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Up to 3 months	55,470	98,918
3 to 6 months	9,579	9,549
6 to 12 months	1,389	1,129
Over 12 months	–	11,586
	66,438	121,182

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Current	—	—

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”).

On 13 March 2023, the Company settled the remaining portion of the Note in the principal amount of HKD40,000,000 (equivalent to approximately RMB36,328,000) and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note.

15 CONVERTIBLE BONDS

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 2024		
	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2023 (Audited)	79,084	7,176	86,260
Interest expense	7,907	—	7,907
Repayment	(4,925)	—	(4,925)
Foreign exchange movements	1,169	—	1,169
	<u>83,235</u>	<u>7,176</u>	<u>90,411</u>
At 31 December 2023 (Audited)			
Interest expense	2,499	—	2,499
Foreign exchange movements	(1,906)	—	(1,906)
	<u>83,828</u>	<u>7,176</u>	<u>91,004</u>
At 30 June 2024 (Unaudited)			

16 DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2024 (2023: nil).

17 CONTINGENT LIABILITIES

As at 30 June 2024, the Group and the Company had no significant contingent liabilities (31 December 2023: nil).

18 COMMITMENTS

Capital commitments

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Property, plant and equipment	<u>50,702</u>	<u>264,686</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business at a Glance

As one of the few top leading manufacturers of the aerosol products in the People's Republic of China (the "PRC"), our Group is principally engaged in the research and development, manufacture and sale of aerosol products for household and auto care, air fresheners, personal care products and insecticides and wholesales of personal care products and production related materials. 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. Our Group also timely launched the brand "GINVIK" through our subsidiary Sinopharm Junyue Aerosol Group Co. Ltd. (國藥景岳氣霧劑有限公司) ("Sinopharm Junyue") which included e-commerce as a sale channel.

We also continued to explore the wholesales business to sell personal care products and production related materials in the PRC during the Reporting Period.

During the Reporting Period, adhering to the development concept of "innovation, green and harmonious", the Group continued to strengthen the cooperation relationship with strategic customers. On the basis of maintaining the existing sales channels, the Group continued to develop new sales channels to actively expand the PRC market through increasing investment in e-commerce companies with sales channels of e-commerce, at the same time actively developed high value-added products to enhance the bargaining power of the Group's products. Benefiting from the resumption of import and export since the second half of 2023, the Group's CMS business and OBM business increased by approximately 25.8% and 24.6% respectively, and the Group continued to explore the wholesale business which recorded an increase of approximately 84.1%.

For the six months ended 30 June 2024, the revenue and net profit of the Group were approximately RMB553.0 million and RMB41.6 million respectively, representing an increase of approximately 36.1% and 37.6% respectively as compared with that for the corresponding period of 2023. The earnings per share for profit attributable to owners of the Company was RMB0.08 during the Reporting Period which represents an increase of RMB0.02 as compared with the earnings per share of RMB0.06 for the corresponding period of last year.

Prospect

Looking forward to the second half of the year, the Group will continue to strengthen its supply chain construction, control procurement costs and inventory, and enhance the research and development capabilities of the Group to ensure that the research and development of high value-added products recognised by the market can be more efficient and accurate. We will improve the bargaining power of the Group's products and the market prospects of the products, and strive to

maintain and expand its market share to continue to consolidate and strengthen the Group's CMS business and OBM business. Moreover, we will not only continuously develop the wholesale business, but also explore other business development opportunities. In addition, the product lines will be expanded through products such as medical, edible aerosol products, cosmetics researched and developed by our subsidiary, Sinopharm Junyue, and sales channels will be increased by its e-commerce subsidiary, so as to lay a solid foundation for the sustainable growth of sales revenue in the future. The Chairman and the management of the Group will closely monitor changes in the domestic and international situations and market trends, and adjust strategies in a timely manner in order to achieve better results for the Group.

Financial Review

Turnover

CMS

For the six months ended 30 June 2024, the turnover of the Group's CMS business was approximately RMB360.8 million (2023: approximately RMB286.9 million), representing an increase of approximately 25.8% as compared with that for the corresponding period of 2023.

During the Reporting Period, the Group has recovered from the impact of the pandemic and experienced a wave of growth in sales revenue, which reflects that the Group has returned to the upward trend. The international situation and competition, due to the relatively high prices of raw materials at present, are facing severe challenges. However, the Group's previous decision-making is clear from the current perspective, and the Group will continue to strengthen the strategic cooperation relationship with customers and adjust strategies to actively explore the domestic market, proactively research and develop high value-added products based on its solid foundation and its innovation capacities, so as to increase the bargaining room for the Group's products. The CMS business of the Group increased over the previous period. In the second half of the year, the Group will continue to consolidate its existing market shares of CMS business 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 2024 was approximately RMB58.2 million (2023: approximately RMB46.7 million), representing an increase of approximately 24.6% as compared with that for the corresponding period in 2023.

During the Reporting Period, the Group has recovered from the impact of the pandemic and returned to the upward trend. Although the prices of raw materials are currently at a relatively high level, the Group will continue to develop new sales channels, actively explore the domestic market and proactively research and develop high value-added products, so as to increase the bargaining room for the Group's products. The OBM business of the Group grew by approximately 24.6% as a result of better domestic consumption. In the second half of the year, the Group will continue to focus on research and development of products and explore different platform and channel to improve the turnover of products.

Wholesale business

During the Reporting Period, the Group continued to explore the wholesale business of personal care products and production related materials in the PRC. Through the industry experience and market network of the individual care products of the Group in the PRC, the Group expanded its business sources and increased its revenue. Revenue of the Group from wholesale business for the six months ended 30 June 2024 was approximately RMB134.0 million (2023: approximately RMB72.8 million), representing an increase of approximately 84.1% as compared with that for the corresponding period in 2023.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2024 was approximately RMB487.7 million (2023: approximately RMB340.7 million), representing an increase of approximately 43.1% as compared with that for the corresponding period of 2023. The increase was in line with the increment of sales volume.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2024, the Group recorded gross profit of approximately RMB65.3 million (2023: approximately RMB65.7 million) and the gross profit margin was approximately 11.8% (2023: approximately 16.2%). The decrease in gross profit margin was mainly due to higher cost of sales in Sinopharm Junyue's CMS business and the increased in business proportion in wholesale business which has relatively lower gross profit margin during the Reporting Period.

Other Income and Other Gains

Other income and other gains of the Group for the six months ended 30 June 2024 was approximately RMB29.7 million (2023: approximately RMB15.2 million), representing an increase of approximately RMB14.5 million as compared with that for the corresponding period of 2023. Such increase was primarily due to the increase of government grants income 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 2024, selling expenses was approximately RMB9.6 million (2023: approximately RMB12.2 million), representing a decrease of approximately 21.3% as compared with that for the corresponding period of 2023. The decrease was mainly due to the decrease in transportation and travelling expenses during the Reporting Period.

Administrative and Other Operating Expenses

Administrative and other operating 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 2024, administrative expenses was approximately RMB30.5 million (2023: approximately RMB27.3 million), representing an increase of approximately 11.7% as compared with that for the corresponding period of 2023. The increase was primarily due to the increase in staff salaries and benefit expenses during the Reporting Period.

Finance Costs – net

For the six months ended 30 June 2024, the Group recorded net finance cost of approximately RMB8.9 million (2023: approximately RMB7.5 million), representing an increase of approximately 18.7% as compared with that for the corresponding period of 2023. The increase in net finance costs was primarily due to the increase in interest expenses from bank and other borrowings during the Reporting Period.

Income Tax Expense

The income tax expense of the Group for the six months ended 30 June 2024 was approximately RMB4.2 million, representing an increase of approximately RMB0.4 million as compared with approximately RMB3.8 million for the corresponding period of 2023, which was mainly due to the increase in profit before income tax and increase in the proportion of non-deductible expenses recorded during the Reporting Period.

Profit for the period

The Group recorded profit for the six months ended 30 June 2024 of approximately RMB41.6 million (2023: approximately RMB30.3 million), representing an increase of approximately RMB11.3 million as compared with that for the corresponding period of 2023. Such increase was primarily due to the effect of increase in other income and other gains during the Reporting Period.

Highlights of Statement of Financial Position

Property, Plant and Equipment

The Group's property, plant and equipment was approximately RMB671.4 million as at 30 June 2024 compared to approximately RMB635.5 million as at 31 December 2023. Such increase was due to the Group had acquired property, plant and equipment of approximately RMB40.5 million during the Reporting Period. The capital expenditures were financed by the internal resources and the bank borrowings of the Group.

Prepayments for Property, Plant and Equipment

As at 30 June 2024, the Group's prepayments for property, plant and equipment was approximately RMB134.9 million (31 December 2023: approximately RMB134.9 million). No further advanced payment was made in construction in progress related to the development of production plant in the PRC during the Reporting Period.

Inventories

As at 30 June 2024, the inventories increased by 11.5% to approximately RMB54.2 million (31 December 2023: approximately RMB48.6 million). The increment was mainly due to inventory building up in order to fulfill the sales volume improvement in coming sales schedule.

Trade Receivables

As at 30 June 2024, trade receivables of approximately RMB57.9 million were past due, representing a decrease of approximately 20.0% as compared to the amount of approximately RMB72.4 million as at 31 December 2023. The amount of the impairment provision was approximately RMB8.9 million (31 December 2023: approximately RMB8.9 million).

Liquidity and Financial Resources

As at 30 June 2024, the total assets of the Group amounted to approximately RMB1,433.0 million (31 December 2023: approximately RMB1,389.0 million), and the net current liabilities of approximately RMB125.6 million (31 December 2023: net current liabilities of approximately RMB149.5 million).

The gearing ratio (based on the total debt over the total equity) of the Group decreased from approximately 191% as at 31 December 2023 to approximately 181% as at 30 June 2024 due to the increase in total equity.

Borrowings and the Pledge of the Group's Assets

As at 30 June 2024, bank and other borrowings of approximately RMB640.5 million (31 December 2023: approximately RMB622.0 million) and notes payable of approximately RMB107.0 million (31 December 2023: approximately RMB77.8 million) were secured by our properties, plant and equipment, land use rights and pledge bank deposits with an aggregate carrying amount of approximately RMB663.9 million (31 December 2023: approximately RMB654.4 million). Bank and other 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 2024, the Group had capital commitments of approximately RMB50.7 million in respect of property, plant and equipment (31 December 2023: approximately RMB264.7 million).

Contingent Liabilities

As at 30 June 2024, the Group did not have any significant contingent liabilities (31 December 2023: nil).

Exchange Rate Exposure

During the Reporting Period, 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 recognised assets and liabilities which are denominated in currencies other than RMB, the Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies 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 2024 (2023: nil).

Employees and Emoluments Policy

As at 30 June 2024, the Group had employed a total of 466 employees in the PRC and Hong Kong (31 December 2023: 423). 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

The Group did not have any significant investments as at 30 June 2024.

Material Acquisitions and Disposals of Subsidiaries, Associations and Joint Venture

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

OTHER INFORMATION

Profit Guarantee in respect of the acquisition of 25% Equity Interest of Ever Clever (as defined below)

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 2020, 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 for 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 issue 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. The Board is in the process to discuss the enforcement possibility with legal team.

FUND RAISING ACTIVITY

The Company has not conducted any other fund raising activity for the 12 months immediately before 30 June 2024 and up to the date of this announcement.

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. Also, the Group will continue to expand and explore sales network and platform in order to achieve business growth. In addition, the Group will also identify other investment opportunities in the market.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after 30 June 2024 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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 this announcement together with the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2024.

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 C1 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except CG Code provision as below.

Pursuant to the 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 C3 to the Listing Rules as its code of conduct of the Group regarding Directors' securities transactions for the six months ended 30 June 2024. 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) and the Company (<http://www.ludaocn.com>). The interim report of the Company for the six months ended 30 June 2024 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 Luda Technology Company Limited
Yu Yuerong
Chairman & executive Director

Hong Kong, 29 August 2024

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