2022 ANNUAL REPORT

A BETTER WORLD FOR EVERYONE

中國綠島科技有限公司

CHINA LUDAO TECHNOLOGY COMPANY LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

Stock Code: HK 2023

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean

AUDIT COMMITTEE

Mr. Chan Yin Tsung *(Chairman)*
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean

NOMINATION COMMITTEE

Ms. Yau Kit Kuen Jean *(Chairlady)*
Mr. Chan Yin Tsung
Mr. Ruan Lianfa
Mr. Yu Yuerong

REMUNERATION COMMITTEE

Mr. Chan Yin Tsung *(Chairman)*
Mr. Ruan Lianfa
Mr. Yu Yuerong
Ms. Yau Kit Kuen Jean

COMPANY SECRETARY

Mr. Ho Ka Wai

REGISTERED OFFICE

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Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Taizhou City
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LEGAL ADVISOR

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANKER

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

WEBSITE

www.ludaocn.com

STOCK CODE

2023

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of China Ludao Technology Company Limited (the "Company" and together with its subsidiaries, the "Group"), I would like to present to the shareholders of the Company the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2022 (the "Reporting Period").

During the Reporting Period, the Group was able to withstand the pressure at home and abroad and achieved stable business growth in general. The pandemic recurred in some regions in China, and some supply chain links were blocked. From a specific month perspective, in March, April and December, affected by the new round of pandemic in China, the changes in the pandemic prevention and control measures in various regions had a great impact on the domestic supply chain and import and export transportation. The surge in international bulk commodity prices and the high shipping container and logistics costs have brought significant pressure on the Group's supply side and sales side, and the profit of sales orders have been eroded. Under the influence of multiple unfavorable factors, the Group still adhered to the development concept of "innovative, green and harmonious", adjusted strategies and responded actively, and on the basis of strengthening the cooperation relationship with strategic customers, actively expanded the domestic market, actively developed high value-added products, enhanced the bargaining space of the Group's products, and increased investment in e-commerce in a timely manner. And such measures have achieved initial success. In 2022, OBM business of the Group has improved to a certain extent, representing an increase of 51.7%, while CMS business was still in the consolidation stage, and the business for the year has decreased by 37.3%. In addition, in the second half of the year, the Group also tried to expand the wholesale business of personal care products to broaden the Group's business sources and increase revenue.

Last but not least, on behalf of the Board, I would like to extend my heartfelt thanks to the management team, employees, customers, suppliers and business partners of the Group for their dedicated contribution and support and also extend my gratitude to all our shareholders for their continuous support in this challenging year. In praise of their support, the Group will unwaveringly strive for reaping more promising business performance.

Yu Yuerong
Chairman and Executive Director

Hong Kong, 30 March 2023

Management Discussion and Analysis

BUSINESS REVIEW

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

Our OBM business offers products under our own brand names of "Green Island", "Ludao" ("綠島"), "JIERJIA" ("吉爾佳") and "EAGLEIN KING" ("鷹王"), mainly through a network of distributors, who further resell our OBM products to wholesalers, retailers and end-users in the PRC and timely launched the brand "GINVIK" through its subordinate company Sinopharm Junyue and included in e-commerce as a sale channel accordingly.

We also commenced the wholesales business to sell personal care products in the PRC during the Reporting Period.

During the Reporting Period, the Group still adhered to the development concept of "innovative, green and harmonious", adjusted strategies and responded actively. On the basis of strengthening the cooperative relationship with strategic customers, the Group actively expanded the domestic market, actively developed high value-added products, improved the bargaining space of the Group's products, and increased investment in e-commerce companies in a timely manner to increase the sales channels of e-commerce. With the initial success of e-commerce channels, OBM business of the Group increased to a certain extent in 2022, representing an increase of 51.7%, while CMS business was still in the consolidation stage, and the business for the year decreased by 37.3%. In addition, in the second half of the year, the Group also tried to commence the wholesale business of personal care products to broaden the Group's business sources and increase revenue.

For the Reporting Period, the revenue and net profit of the Group were approximately RMB534.7 million and RMB22.1 million respectively, representing an increase and a decrease of approximately 12.2% and 37.2% respectively over 2021. Basic earnings per share was approximately RMB5 cents (2021: RMB7 cents).

The Group's total comprehensive expenses for the year attributable to the owners of the Company was approximately RMB5.4 million for the Reporting Period, compared to the total comprehensive income of approximately RMB45.8 million for the prior year. The decrease is primarily attributable to the effect of approximately RMB27.4 million other comprehensive expenses from currency translation differences (2021: other comprehensive income of approximately RMB10.6 million). The Board considers that overall operational and financial position of the Group as whole still remain good.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

CMS

For the Reporting Period, the revenue for the Group's CMS business was approximately RMB269.6 million (2021: RMB430.2 million) representing a decrease of approximately 37.3% as compared with last year.

During the Reporting Period, the pandemic recurred in some regions in China, and some supply chain links were blocked. The changes in the pandemic prevention and control measures in various regions had a great impact on the domestic supply chain and import and export transportation. The surge in international bulk commodity prices and the high shipping container and logistics costs have brought significant pressure on the Group's supply side and sales side, and the profits of sales orders have been eroded. Although the Group adjusted its strategy on the basis of strengthening the cooperation relationship with strategic customers, actively expanded the domestic market, actively developed high value-added products, and increased the bargaining space of the Group's products through its solid development foundation and continuous innovation capability over the years, the CMS business of the Group decreased as compared with last year due to the less ideal international environment.

OBM

The revenue for OBM business of the Group for the Reporting Period was approximately RMB70.1 million (2021: RMB46.2 million), representing an increase of approximately 51.7% as compared with last year.

The Group adhered to the development concept of "innovative, green and harmonious", adjusted strategies, actively expanded the domestic market, actively developed high value-added products, and improved the bargaining space of the Group's products. At the same time, the Group actively expanded different sales channels, including e-commerce sales platforms, and achieved an increase in OBM business in 2022 as compared with last year.

Wholesale business

During the Reporting Period, the Group tried to commence the wholesale business of personal care products 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 from wholesale business in 2022 was approximately RMB195 million (2021: Nil).

Cost of sales

Cost of sales of the Group for the Reporting Period was approximately RMB451.3 million (2021: RMB347.8 million), representing an increase of approximately 29.8% when compared to the prior year.

Management Discussion and Analysis

Gross profit and gross profit margin

For the Reporting Period, the Group recorded gross profit of approximately RMB83.4 million (2021: RMB128.6 million), representing a decrease of approximately 35.1% as compared to that of the prior year. The gross profit margin was approximately 15.6% (2021: 27.0%), such decrease of approximately 11.4% was primarily due to continuously inflation of product raw material price, the weakening of the US dollar against the Renminbi and also diluted by the slight gross profit margin ratio from the wholesales business.

Net profit

The Group's net profit for the Reporting Period was approximately RMB22.1 million (2021: RMB35.2 million), representing a decrease of approximately 37.2% when compared to the prior year. The net profit margin of the Group decreased from 7.4% in 2021 to 4.1% in 2022. Such result was primarily due to reduction in gross profit margin ratio during the Reporting Period.

Other comprehensive (expenses)/income for the year

The Group's other comprehensive expenses for the Reporting Period was approximately RMB27.4 million (2021: other comprehensive income RMB10.6 million), representing a decrease of approximately 358.5% when compared to the prior year. The decrease was mainly attributable to the effect of the currency translation differences.

Expenses

Selling expenses

Selling expenses mainly consist of staff salaries, allowance and bonus, entertainment expenses, transportation and travelling expenses, advertising expenses and exhibition expenses. For the Reporting Period, selling expenses was approximately RMB20.6 million (2021: RMB25.5 million), representing a decrease of approximately 19.2% as compared to that of the prior year. The decrease was primarily due to the decrease in staff salaries, allowance and bonus and transportation and travelling expenses during the Reporting Period.

Administrative expenses

Administrative expenses consist of staff salaries and benefit expenses, depreciation and amortisation, transportation and travelling expenses, office expenses, research and development costs, other tax expenses and entertainment expenses. For the Reporting Period, administrative expenses was approximately RMB56.0 million (2021: RMB65.0 million), representing a decrease of approximately 13.8% as compared to that of the prior year. The decrease was primarily due to the decrease in staff salaries and depreciation and amortisation.

Finance costs – net

For the Reporting Period, the Group recorded net finance costs of approximately RMB14.1 million (2021: net finance costs RMB18.1 million), representing a decrease of approximately RMB4.0 million as compared to that of the prior year. The decrease was primarily due to decrease in interest expense on Note and certain amount of interest expense being capitalised in construction-in-progress.

Income tax expense

The income tax expense of the Group for the Reporting Period was approximately RMB2.7 million, representing a decrease of approximately RMB2.1 million as compared with RMB4.8 million in 2021. Effective income tax rate for the current period was approximately 10.9%, which was lower as compared with approximately 12.0% over 2021. The lower effective income tax rate was primarily due to the effect of different tax rates of the subsidiaries for tax purpose.

HIGHLIGHT OF STATEMENT OF FINANCIAL POSITION

Property, plant and equipment

The Group's property, plant and equipment was approximately RMB515.7 million as at 31 December 2022 compared to approximately RMB278.9 million as at 31 December 2021. Such increase mainly due to the addition of property, plant and equipment of approximately RMB247.7 million combined with the depreciation provided of approximately of RMB10.9 million during the year ended 31 December 2022. Details and breakdown of the property, plant and equipment were set out in note 15 to the consolidated financial statements. The capital expenditures were financed by the internal resources and bank borrowings of the Group.

Prepayments for property, plant and equipment

As at 31 December 2022, the Group's prepayments for construction in progress and plant and equipment was approximately RMB118.0 million (2021: RMB188.3 million). The decrease was due to certain advances made under construction contracts and purchases contracted related to development of production plants in the PRC in previous years was transferred to property, plant and equipment during the year.

Inventories

As at 31 December 2022, the inventories decreased by 12.3% to approximately RMB49.9 million (2021: approximately RMB56.9 million). This was mainly due to the Group decreased production capacity, resulting in an decrease in finished goods at the end of the period.

Trade receivables

As at 31 December 2022, trade receivables of approximately RMB29.4 million were past due, representing an increase of approximately 194.0% as compared to the amount of RMB10.0 million as at 31 December 2021. The amount of the impairment provision was approximately RMB10,601,000 as at 31 December 2022 (2021: RMB4,200,000).

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2022 (2021: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the total assets of the Group amounted to approximately RMB1,150.2 million (2021: RMB933.8 million), and net current assets of approximately RMB109.5 million (2021: net current liabilities: RMB123.4 million). The gearing ratio (based on the total debt over the total equity) of the Group was approximately 171%, which was higher than that of approximately 115% over 2021. The increase was primarily due to the bank and other borrowings during the year.

BORROWINGS

As at 31 December 2022, bank and other borrowings of the Group amounted to approximately RMB104.9 million (2021: RMB234.6 million) with full maturity until 2023.

CAPITAL STRUCTURE

During the Reporting Period, there was no change in the Company's share capital.

CONTRACTUAL OBLIGATIONS

As at 31 December 2022, the Group had capital commitments of approximately RMB153.6 million in respect of property, plant and equipment (2021: RMB164.9 million). The Group had rented out the investment property, which granted the Group future aggregate minimum lease rentals receivable of nil within one year (2021: RMB0.3 million) and nil later than one year and no later than five years (2021: nil).

CONTINGENT LIABILITIES

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

EXCHANGE RATE EXPOSURE

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

EMPLOYEES AND EMOLUMENTS POLICIES

As at 31 December 2022, the Group had employed a total of 383 employees (2021: 430). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of Directors have been determined with reference to the skills, knowledge, involvement in the Company's affairs and the performance of each Director, and to the profitability of the Company and prevailing market conditions during the year. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonuses and the Group's contribution to mandatory provident funds (or state-managed retirement benefits scheme). Other benefits include share options granted or to be granted under the Share Option Schemes and training schemes. The Group will review the remuneration policy and related packages on a regular basis.

SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group invested approximately RMB1 million and RMB89.4 million in financial asset at fair value through profit or loss and property, plant and equipment respectively (2021: nil and RMB9.3 million respectively).

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

OTHER INFORMATION

Update on Profit Guarantee in respect of the acquisition of 25% Equity Interest of EC Group (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 and 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 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 in 2019 but such attempts did not come to any fruitful results.

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 annual report, 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 ACTIVITIES

The Company has not conducted any other fund raising activity during the Reporting Period and up to the date of this annual report.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Company planned to continue upgrading the existing production line in the future for the sake of improving the automatic level and production quality. In addition, the Group will continue to invest and develop projects for the research and development, manufacture and sale of medical and edible aerosol products through its subsidiaries in the PRC. Also, the Group will continue to expand and explore sales network and platform in order to achieve business growth. The Group will also identify other investment opportunities in the market.

PROSPECTS

In the coming 2023, as the peak of the pandemic gradually subsides, the full liberalization of domestic pandemic prevention and control policies will be conducive to ensuring the production and transportation links of China's exports. It is expected that the Group's production stability and the smoothness of port logistics and transportation will be more strongly guaranteed in the future, which can avoid the recurrence of a sharp decline in exports due to a greater impact on the domestic export supply chain and transportation arising from the domestic pandemic and the strengthening and upgrading of pandemic prevention and control measures in 2022. It is expected to have a boosting effect on exports in 2023. China has successively introduced a series of policies to stabilize foreign trade and stabilize the economy to promote the stability and quality of China's foreign trade, and the effectiveness of the policies will gradually appear. The Group will take advantage of this series of favorable policies to actively develop high value-added products, improve the bargaining space of the Group's products, and strive to maintain and expand the market share, so as to continue to consolidate and strengthen the CMS business and OBM business of the Group. At the same time, the Group will expand its product lines through the research and development of products such as pharmaceutical, edible aerosol products and cosmetics of Sinopharm Jinyue Aerosol Group Co., Ltd. Through its e-commerce company and attempt to expand different sales channels, the Group will lay a solid foundation for the sustainable growth of sales revenue in the future. The management of the Group will closely monitor the changes in the international situation and adjust its strategies in a timely manner in order to achieve better performance.

Corporate Governance Report

The Board is pleased to present this corporate governance report (the "Corporate Governance Report") for the year ended 31 December 2022.

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

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the following:

Pursuant to CG Code, it is recommended that, the roles of chairman and chief executive should be separated 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 as Mr. Yu has considerable experience and established market reputation in the industry, and the importance of Mr. Yu in the strategic development of the Company. The dual role arrangement provides strong and consistent 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.

THE BOARD

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

Roles and Responsibilities of Directors

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

Corporate Governance Report

The Company is committed to achieving long term success of the Company and to safeguard the interests of the shareholders of the Company and other stakeholders. To this end, the Board assumes the responsibilities for leadership and control of the Company and oversees the businesses, strategic development, financial performance and corporate governance of the Group.

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

Board Composition

The Board currently comprises of three executive Directors and three independent non-executive Directors. The list of Directors and their biographies are set out under the section of "Corporate Information" and "Biographies of Directors and Senior Management" on page 2 and page 28 to 30 respectively. Save as disclosed in the section of "Biographies of Directors and Senior Management", the Directors have no other relationship with one another. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

As at 31 December 2022, the Board comprises three independent non-executive Directors which is in compliance with Rule 3.10(1) of the Listing Rules that every board of directors of a listed issuer must include at least three independent non-executive Directors and representing more than one-third of the board, which is in compliance with Rule 3.10A of the Listing Rules. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise. The independent non-executive Directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business which is in compliance with Rule 3.10(2) of the Listing Rules. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought to the Board's deliberations and that such views and judgement carry weight in the Board's decision making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements.

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

Corporate Governance Report

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

Functions and Duties of the Board

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

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

(ii) Deciding business plans and investment plans;

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

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

(v) Determining the policies for corporate governance practices.

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

Appointment, Re-election and Removal of Directors

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

In accordance with the Articles, Mr. Yu Yuerong and Mr. Wang Xiaobing shall retire from office and, being eligible, offer themselves for re-election at the forthcoming AGM of the Company. The Board and the nomination committee (the "Nomination Committee") recommend their re-appointment. Mr. Ruan Lianfa ("Mr. Ruan") has been appointed as an independent non-executive Director for more than nine years. Pursuant to the code provision B.2.3 of the CG Code contained in Appendix 14 of the Listing Rules, any further appointment of independent non-executive Director serving for more than nine years should be subject to a separate resolution to be approved by the shareholders. The Board has received from Mr. Ruan an annual confirmation on his independence pursuant to the Listing Rules. Mr. Ruan has served as a member of the Board for more than nine years. While this could be relevant to the assessment of independence, the Board is of the view that the independence of Mr. Ruan cannot be solely determined by his period of service in the Company. In assessing his independence, the Board has considered his character and judgement with reference to his contribution to the Board. Over the years, Mr. Ruan has provided valuable insights to the Board with his experience, expertise and knowledge, and the Company has benefited from his contribution and commitment. The Board is therefore of the view that Mr. Ruan meets the independence criteria set out in Rule 3.13 of the Listing Rules and that he is able to continue to fulfil his role as an independent non-executive Director. The Board is satisfied that, taking into account, among others, the valuable insights, useful guidance and independent judgment provided to the Board by Mr. Ruan, Mr. Ruan is of such character, integrity and experience commensurate with office of an independent non-executive Director. Mr. Ruan's professional background, knowledge and experience have also contributed to the diversity of the Board. Based on the above mentioned considerations, the Board, on the recommendation of the Nomination Committee of the Company, would recommend Mr. Ruan for re-election at the AGM.

The Company's circular, sent together with this annual report, contains detailed information of the above three Directors as required by the Listing Rules.

Directors Nomination Procedures

Pursuant to the Directors Nomination Procedures, the Company considers a number of criteria in evaluating and selecting candidates for directorships, including but not limited to (i) character and integrity; (ii) qualifications including professional qualifications; (iii) willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments; (iv) requirement for the Board to have independent non-executive Directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules; (v) board diversity policy of the Company and any measurable objectives adopted by the Board for achieving diversity on the Board knowledge and experience that are relevant to the Company's business and corporate strategy; and (vi) other perspectives appropriate to the Company's business.

The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of Director at the general meeting.

The Nomination Committee will review the Directors Nomination Procedures annually to ensure its continued effectiveness.

Board Independence

The Board has established mechanisms to ensure independent views are available to the Board. The summary of the mechanisms is set out below:

(i) Composition

The Board ensures the appointment of at least three independent non-executive Directors and at least one-third of its members being independent non-executive Directors (or such higher threshold as may be required by the Listing Rules from time to time), with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Further, independent non-executive Directors will be appointed to Board committees as required under the Listing Rules and as far as practicable to ensure independent views are available.

(ii) Independence Assessment

The Nomination Committee strictly adheres to the nomination policy with regard to the nomination and appointment of independent non-executive Directors, and is mandated to assess annually the independence of independent non-executive Directors to ensure that they can continually exercise independent judgement.

(iii) Compensation

No equity-based remuneration with performance-related elements will be granted to independent non-executive Directors as this may lead to bias in their decision-making and compromise their objectivity and independence.

(iv) Board Decision Making

Directors (including independent non-executive Directors) are entitled to seek further information from the management on the matters to be discussed at Board meetings and, where necessary, independent advice from external professional advisers at the Company's expense.

A Director (including independent non-executive Director) who has a material interest in a contract, transaction or arrangement shall not vote or be counted in the quorum on any Board resolution approving the same.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company's independent non-executive Directors have been appointed for an initial term of three years. Each of the Company's independent non-executive Directors are subject to re-election.

Meetings with the Independent Non-Executive Directors

Pursuant to the CG Code that the chairman of the Board should hold meetings with the independent non-executive directors at least annually without the presence of other directors. During the year ended 31 December 2022, one meeting was held between the chairman of the Board and the independent non-executive Directors, with each of the independent non-executive Directors present. The chairman of the Board will continue to make arrangements for holding at least one meeting with the independent non-executive Directors for every subsequent year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct of the Group regarding Director's securities transactions. The Company has made specific enquiry with all Directors and the Directors confirmed that they had complied with the Model Code during the Reporting Period.

Corporate Governance Report

DIRECTORS' TRAINING

All newly appointed board members are required to receive an induction to ensure that he/she has a proper understanding of the business and operations of the Group and that he/she is fully aware of his/her duties and responsibilities as a director under applicable rules and requirements. All Directors confirmed that they had participated in continuous professional development regarding the Listing Rules and other applicable regulatory requirements on an ongoing basis to develop and refresh their knowledge and skills in compliance with the CG Code. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2022, the Directors including Mr. Yu Yuerong, Ms. Pan Yili, Mr. Wang Xiaobing, Mr. Chan Yin Tsung, Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean have participated in continuous professional development by attending training courses, meetings and/or reading reference materials on the topics related to update corporate governance and regulations and updates of accounting standards.

CORPORATE GOVERNANCE FUNCTIONS

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

BOARD DIVERSITY POLICY

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

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

The Company's diversity philosophy including the gender diversity was generally followed in the workforce throughout the Group for the year ended 31 December 2022. As of the date of this report, 67% of Directors and 49% of total workforce were male. The Company will continue to take, steps to promote diversity, including gender diversity, at workforce levels.

Board Meetings

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

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

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

Pursuant to CG Code, it is recommended that the Board should meet regularly and Board meetings should be held at least four times a year. During the Reporting Period, there were five Board meetings held.

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

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

The terms of reference setting out the Audit Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

During the Reporting Period, the Audit Committee has held two meetings to review the interim and annual financial results and reports, financial reporting and the report on the Company's internal control and risk management review and process.

The Audit Committee has reviewed together with the management and the Company's independent auditor the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the Reporting Period and this annual report.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 16 September 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration, to make recommendations to the Board on the remuneration package of the Directors and senior management. The remuneration policy for the Directors and senior management was based on their experience, level, responsibility and general market conditions.

The terms of reference setting out the Remuneration Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

The Remuneration Committee currently comprises of four members, being three independent non-executive Directors, namely, Mr. Chan Yin Tsung (being the chairman of the Remuneration Committee), Ms. Yau Kit Kuen Jean, Mr. Ruan Lianfa, and one executive Director, Mr. Yu.

During the Reporting Period, there were three meetings held to review and make recommendation on the remuneration packages of individual executive Directors and senior management and Director's fee of independent non-executive Directors.

Pursuant to the CG Code, the remuneration of the members of the senior management (other than Directors) whose particulars are contained in the section headed "Biographies of Directors and Senior Management" in this annual report for the year ended 31 December 2022 by band is set out below:

Remuneration Bands	Number of Senior Management
Nil to HK$1,000,000	2

NOMINATION COMMITTEE

The Company established the Nomination Committee on 16 September 2013 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment or re-appointment of Directors and the senior management as well as the succession planning for Directors; ongoing review the structure, size, composition and diversity of the Board on a regular basis and monitor the training and continuous professional development of Directors and senior management.

The terms of reference setting out the Nomination Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

The Nomination Committee comprises of four members, being three independent non-executive Directors, namely, Ms. Yau Kit Kuen Jean (being the chairlady of the Nomination Committee), Mr. Chan Yin Tsung, Mr. Ruan Lianfa and one executive Director, Mr. Yu.

During the Reporting Period, the Nomination Committee has held three meetings to review the structure, size, composition and diversity of the Board and made recommendations to the Board in accordance with the Nomination Committee's written terms of reference.

Corporate Governance Report

DIRECTORS' ATTENDANCE

Set out below are details of the attendance record of each Director at the Board, committee and general meeting of the Company held during the Reporting Period:

	Meetings attended/held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Mr. Yu Yuerong *(Note 1)*	5/5	N/A	3/3	3/3	1/1
Mr. Wang Xiaobing *(Note 2)*	5/5	N/A	N/A	N/A	1/1
Ms. Pan Yili	5/5	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Chan Yin Tsung *(Note 3)*	5/5	2/2	3/3	3/3	1/1
Mr. Ruan Lianfa	5/5	2/2	3/3	3/3	1/1
Ms. Yau Kit Kuen Jean *(Note 4)*	5/5	2/2	3/3	3/3	1/1

Notes:

1. Chairman of the Company
2. Deputy Chairman of the Company
3. Chairman of the Audit Committee and the Remuneration Committee
4. Chairlady of the Nomination Committee

COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring the procedures are followed and the activities of the Board are efficiently and effectively conducted. The Company Secretary also ensures that the Board is fully abreast of the relevant legislative, regulatory and corporate governance developments relating to the Group.

The Company Secretary reports to the chairman and chief executive officer, plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the Listing Rules. The position of the Company Secretary is held by Mr. Ho Ka Wai ("Mr. Ho"). The biographical details of Mr. Ho are set out in the section headed "Biographies of Directors and Senior Management" of this report.

During the Reporting Period, Mr. Ho took not less than 15 hours of relevant professional training to update his skills and knowledge as required under Rule 3.29 of the Listing Rules.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view and that relevant statutory requirements and applicable accounting standards are complied with.

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

EXTERNAL INDEPENDENT AUDITOR'S REMUNERATION

During the year ended 31 December 2022, the fee payable to BDO Limited in respect of its statutory audit services and non-audit service related to review the preliminary annual results announcement of the Group provided to the Company were approximately RMB1.2 million and nil respectively.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2022 were audited by BDO Limited. There has been no other change of auditors for the three years immediately preceding this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective risk management and internal control systems of the Group, the systems includes a defined management structure with limited authority and designed to achieve business objectives, safeguarding assets against unauthorised use or disposition, ensuring the maintenance of reliable financial and accounting records and compliance of applicable laws, rules and regulation and key risks that may impact the Group performance.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The objectives of the risk management and internal control systems of the Group are to identify and manage the risk of the Group within acceptable safety levels and to achieve the objectives of the Group.

The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. We have adopted a bottom-up approach for identification, assessment and mitigation of risk at all business unit levels and across functional areas.

MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

PROCESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group adopted three levels of risk management process to identify, analyse and evaluate and manage material risks. The first level is to ensure all department heads to understand their roles and responsibilities to identify, analyse and evaluate and monitor the risk associated with the operation and/or transaction they are responsible for. The second level is the management of the Group to oversee the risk management activities of the first level and providing ongoing monitoring to the first level and reporting issue to upper level. The final level is the Audit Committee, with the advices from the management from the second level and opinions and findings from external auditor and performing regular review, to ensure the effectiveness of the Group's risk management and internal control systems.

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

The Audit Committee conducted regular reviews on the effectiveness of the Group's risk management and internal control systems on behalf of the Board during the Reporting Period, which covers all material controls, including financial, operational and compliance controls as well as risk management functions. The management has provided a confirmation to the Audit Committee on the effectiveness of these systems during the year ended 31 December 2022.

The Group currently has no internal audit function and the Board reviewed that it is more cost effective to engage an external independent adviser instead of recruiting a team of internal audit staff to perform such annual review function.

The Company engaged a professional firm as an independent advisor to conduct internal control review of the Group for the year ended 31 December 2022. The internal control review report listed out certain findings of the minor weaknesses identified regarding the relevant cycles and procedures with recommendations proposed for the Company to further improve its internal control system. No significant deficiency was identified during the review and the result from the internal control review report has been reported to the Board and the Audit Committee and areas of improvement, if any, have been identified and appropriate measures have been put in place to manage the risks. The Board and the Audit Committee considered the risk management and internal control systems are effective and adequate.

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

The Company has formulated policies on handing and dissemination of inside information and regularly reminded the Directors and employees of the Group to comply with all policies adopted by the Company regarding inside information including the Model Code set out in Appendix 10 of the Listing Rules in relation to dealings in securities of the Company. Such policies are subject to review on a regular basis.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Board has overall responsibility for the Group's environmental, social and governance strategy and reporting. The Board is responsible for the Group's ESG risk management and internal control systems to ensure that the ESG strategies and reporting requirements are met. Detailed information on the environmental, social and governance practices adopted by the Group is set out in the sections headed "Environmental, Social and Governance Report" ("ESG Report") of this annual report.

CONSTITUTIONAL DOCUMENTS

During the Reporting Period, there was no changes in the Company's constitutional documents.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

- maintained frequent contacts with shareholders and investors through various channels such as meetings, telephone and emails;

- regularly updated the Company's news and developments through the investor relations section of the Company's website;

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

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

The Company has adopted a Shareholders' communication policy with the objective of ensuring that the Shareholders will have equal and timely access to information about the Company in order to enable the Shareholders to exercise their rights in an informed manner and allow them to engage actively with the Company. Information will be communicated to the Shareholders through the Company's website, corporate email, financial reports, AGMs and other extraordinary general meetings that may be convened as well as all the published disclosures submitted to the Stock Exchange.

The Company has reviewed the implementation and effectiveness of the shareholder communication policy during the year and conclude that it is effective.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yu Yuerong（虞岳榮）, aged 55, was appointed as the chairman and executive Director of the Company on 16 September 2013. He is also a member of the Remuneration Committee and Nomination Committee. Mr. Yu is the founder of the Group and is primarily responsible for the overall strategic planning and corporate policy making for the operational direction of the Group. Mr. Yu obtained a bachelor's degree in Business Administration from the Open University of China*（中央廣播電視大學）via distance learning in April 2000, and graduated from a Finance and Commerce Programme for Senior Director*（工商管理高級總裁研修班）conducted by Continuing Education of Zhejiang University*（浙江大學繼續教育學院）in 2008. Mr. Yu also obtained a master degree in business administration in Fudan University in June 2022. Mr. Yu has over 26 years of extensive experience in PRC's factory operation and corporate management. Prior to joining the Group, Mr. Yu has worked in the capacity of manager and chairman respectively for Taizhou Yizhou Industrial Company*（台州一洲工業公司）from June 1992 to February 1998 and Zhejiang Huangyan Yizhou Group Limited*（浙江黃岩一洲集團有限公司）from March 1998 to August 2003, both of which are engaged in the production of daily-use chemical products, and Mr. Yu was responsible for managing the overall manufacturing operation of the factories.

Mr. Yu is the sole director of Ludao China Investments Holdings Limited, a controlling shareholder of the Group holding approximately 50.12% of the total issued share capital of the Company.

Mr. Wang Xiaobing（王小兵）, aged 48, was appointed as an executive Director of the Company on 16 May 2014 and also appointed as deputy chairman of the Company on 30 September 2022. Mr. Wang joined the Group in 2010 as the head of research and development department and was primarily responsible for overseeing the research and development centre and monitoring the quality control of the Group. He is currently the general manager of Zhejiang Ludao Technology Co., Ltd. ("Ludao PRC") and primarily responsible for the overall operation management. Prior to joining the Group, Mr. Wang had worked for a subsidiary of China Flavors and Fragrances Company Limited (the shares of which are listed on the Stock Exchange of Hong Kong Limited (stock code: 3318)) in various capacity including engineer, technical manager and general supervisor of the department for daily-use fragrance and flavors. He has professional and managerial experiences in research and development on daily chemical products and technical communication and services. Mr. Wang studied applied chemistry and graduated from the Nanchang Vocational Technology Normal University*（南昌職業技術師範學院）in July 1998.

Ms. Pan Yili（潘伊莉）, aged 47, was appointed as an executive Director of the Company on 16 September 2013. Ms. Pan has over 16 years of corporate marketing and management experience. Ms. Pan joined the Group in 2003 and is primarily responsible for formulating overall business strategies and market development of the Group. She obtained a graduate certificate in Chemical Engineering in June 1993 from Vocational School of Huangyan* （黃岩市職業技術學校）. Ms. Pan received a bachelor's degree in Business Administration from the Open University of China* （中央廣播電視大學）via distance learning in January 2012. Prior to joining the Group, Ms. Pan has worked in the capacity of strategic planner and financial capital operations officer for Zhejiang Huangyan Yizhou Group Limited* （浙江黃岩一洲集團有限公司） from January 1999 to February 2003, which is engaged in the production of daily-use chemical products.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yin Tsung（陳彥璁）, aged 43, serves as an independent non-executive Director, the chairman of the audit committee and remuneration committee and a member of nomination committee of the Company since November 2016. Mr. Chan obtained a bachelor's degree in commerce from the University of British Columbia in November 2001, obtained a master's degree in financial analysis from the Hong Kong University of Science and Technology in November 2011, and obtained an executive master's degree in business administration from the Peking University in January 2022. Mr. Chan is a Certified Public Accountant of the American Institute of Certified Public Accountants.

Mr. Chan has over 20 years of experience in initial public offering, corporate merger and acquisitions, restructuring, due diligence, audit, financial modelling and business valuation. From November 2003 to July 2010, he held relevant positions in Ernst & Young, KPMG Transaction Advisory Services and PricewaterhouseCoopers Corporate Finance. Mr. Chan served the investment banking division of Essence International Financial Holdings Limited from October 2010 to April 2011, and served the private equity department of the same company as a senior manager from June 2011 to July 2012.

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

Mr. Ruan Lianfa（阮連法）, aged 69, was appointed as an independent non-executive Director of the Company on 16 September 2013. He is also a member of Audit Committee, Remuneration Committee and Nomination Committee. Mr. Ruan holds both bachelor degree in Civil Engineering and a master degree in Management from Zhejiang University*（浙江大學）in February 1980 and April 1996 respectively. Since his graduation in 1980, Mr. Ruan has served as a lecturer and a researcher in Zhejiang University*（浙江大學）, head of the Civil Engineering Management Research Institute*（土木工程管理研究所所長）of Zhejiang University*（浙江大學）and the dean of Continuing Education of Zhejiang University*（浙江大學繼續教育學院院長）.

Ms. Yau Kit Kuen Jean（丘潔娟）, aged 54, was appointed as an independent non-executive Director of the Company on 7 July 2017. She is also the chairlady of the Nomination Committee and a member of Audit Committee and Remuneration Committee. Ms. Yau holds an honorary bachelor degree of specialized studies major (finance management) from the Ohio University, the United States. She is a licensed person registered with the Securities and Future Commission of Hong Kong for type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities. She also holds certificates from the Hong Kong Stock Exchange for stock brokerage, automatic trading system, options trading officer and representative, and options clearing officer.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Ms. Yau has over 21 years of experience in trading and sales of securities and trading of futures contracts. From 1999 to 2002, She was a securities trading manager of Citibank. From 2003 to 2012, Ms. Yau held various positions such as an associate director of the securities sales department of CITIC Securities Company Limited and a vice president of the securities sales department of CITIC Securities (HK) Company Limited. In January 2013, Ms. Yau joined BOCOM International Securities Limited as a vice president of the equity business department.

SENIOR MANAGEMENT

Mr. Ho Ka Wai（何嘉偉）, aged 40, was appointed as the Company Secretary and authorised representative of the Company on 13 January 2017. Mr. Ho holds a bachelor's degree of Bachelor of Business Administration from the Lingnan University. He is a member of the Hong Kong Institute of Certified Public Accountants and member of the Hong Kong Chartered Governance Institute. Mr. Ho has over 16 years of experience in accounting and auditing.

Mr. Wang Yongfei（王永飛）, aged 47, is the chief production officer of Ludao PRC and joined the Group in 2003. Mr. Wang is primarily responsible for overseeing the production operation of the Group. Mr. Wang has over 26 years of extensive experience in factory production management. Prior to joining the Group, Mr. Wang was a production supervisor of a manufacturer from 1995 to 2001 in the PRC that is engaged in the production of daily-use chemical products and Mr. Wang was responsible for the management of the manufacturing operation.

Environmental, Social and Governance Report

ABOUT THIS REPORT

China Ludao Technology Company Limited (the "Company"), together with its subsidiaries (the "Group"), is pleased to present this Environmental, Social and Governance Report (the "Report") to provide an overview of the Group's management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects. This Report is prepared by the Group with the professional assistance of APAC Compliance Consultancy and Internal Control Services Limited.

PREPARATION BASIS AND SCOPE

This Report is prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") – "Environmental, Social and Governance Reporting Guide" and has complied with "comply or explain" provision in the Listing Rules.

This Report summarises the performance of the Group in respect of corporate social responsibility, covering its operating activities which are considered as material by the Group – (i) research and development, manufacture and sale of aerosol and related products ("aerosol business") in the People's Republic of China ("PRC"); (ii) clean energy business of collection and utilisation of sewage source thermal energy ("clean energy business") in the PRC; and (iii) investment holding business in Hong Kong. With the aim to optimise and improve the disclosure requirements in the Report, the Group has taken initiative to formulate policies, record relevant data, implement and monitor measures. This Report shall be published both in Chinese and English on the website of Stock Exchange. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

Reporting Period

This Report demonstrates our sustainability initiatives during the Reporting Period from 1 January 2022 to 31 December 2022.

Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by sending us your recommendation to our office at Unit 2003, 20/F., Dah Sing Financial Centre, 248 Queen's Road West, Hong Kong.

Environmental, Social and Governance Report

INTRODUCTION

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

The Group also commenced the wholesales business to sell personal care products in the PRC during the Reporting Period.

The Company is aware of the importance of having a reciprocal relationship with the society. The Board and management of the Company are committed to establishing good standards in environmental, social and corporate governance practices. Apart from pursuing corporate profits, the Group also takes into consideration the sustainable development of the environment, the society and corporate governance in all aspects of the business operation of the Group, so that those standards could be sustained.

In July 2017, the Company has acquired a group company which engages in clean energy business of collection and utilisation of sewage source thermal energy in the PRC, laying a foundation for entering and exploring the huge market of new energy utilisation. The Group hopes to bring long-term sustainability and environmental protection by utilising this new green energy to provide both heating and cooling services to the public to replace conventional energy.

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group understands the success of the Group's business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group's activities, products, services and relationships. It allows the Group to understand risks and opportunities. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group's roles and duties, strategic plan and business initiatives. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

Environmental, Social and Governance Report

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities. The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

Stakeholders	Expectations	Engagement channels	Measures
Government	– Comply with applicable laws and regulations – Proper tax payment – Promote regional economic development and employment	– On-site inspections and checks – Research and discussion through work conferences, work reports preparation and submission for approval – Annual and interim reports – Website	– Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation for example, accepted certain 1-2 on-site inspections throughout the year), and actively undertook social responsibilities
Shareholders and Investors	– Low risk – Return on investment – Information disclosure and transparency – Protection of interests and fair treatment of shareholders	– Annual general meeting and other shareholder meetings – Annual and interim report, announcements	– Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/ circulars/annual and interim reports. – Carried out different forms of investor activities with an aim to improve investors' recognition. Held results briefing upon necessary. – Disclosed company contact details on website and in published reports and ensured all communication channels are available and effective

Stakeholders	Expectations	Engagement channels	Measures
Employees	– Safeguard the rights and interests of employees – Working environment – Career development opportunities – Self-actualization – Health and safety	– Trainings, seminars, briefing sessions – Cultural and sport activities – Newsletters – Intranet and emails	– Provided a healthy and safe working environment; developed a fair mechanism for promotion; established labor unions at all levels to provide communication platforms for employees; cared for employees by helping those in need and organized employee activities
Customers	– Safe and high-quality products – Stable relationship – Integrity – Business ethics	– Company website, brochures and annual reports – Email – Customer service hotline	– Established committee to maintain good communication – Held regular online customer satisfaction survey to understand our customer's satisfaction levels with our products and services
Suppliers/Partners	– Long-term partnership – Honest cooperation – Fair, open information resources sharing – Risk reduction	– Business meetings, supplier conferences, phone calls, interviews – Regular meeting – Review and assessment – Tendering process	– Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors
Financial institution	– Compliance with applicable laws and regulations – Information disclosure	– Consulting – Information disclosure – Reports	– Provided annual and interim reports
Public and Communities	– Social responsibility – Open information	– Community engagement – Information disclosure	– Engaged in charity and volunteering – Disclosed information timely

Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group have adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 27 of the Listing Rules) and the guidelines of GRI Guidelines.

The Group has evaluated the materiality and importance in ESG aspects through the following steps:

Step 1: Identification – Industry Benchmarking

- Relevant ESG areas were identified through the review of relevant ESG reports of the local and international industry peers.

- The materiality of each ESG areas was determined based on the importance of each ESG area to the Group through internal discussion of the management and the recommendation of ESG Reporting Guide (Appendix 27 of the Listing Rules).

Step 2: Prioritization – Stakeholder Engagement

- The Group discussed with key stakeholders on key ESG area identified above to ensure all the key aspects to be covered.

Step 3: Validation – Determining Material Issues

- Based on the discussion with key stakeholders and internal discussion among the management, the Group's management ensured all the key and material ESG areas, which is important to the business development, were reported and in compliance with ESG Reporting Guide.

As a result of this process carried out in 2022, those important ESG areas to the Group were discussed in this Report.

Environmental, Social and Governance Report

ESG GOVERNANCE

Board's oversight of ESG issues

Board's overall vision and strategy in managing ESG issues

The board of directors ("Board") has a primary role in overseeing the management of the Group's sustainability issues. During the year, the Board and the ESG Working Group spent significant time in evaluating the impact of ESG-related risks on our operation and formulating relevant policy in dealing with the risks. The oversight of the Board is to ensure the management to have all the right tools and resources to oversee the ESG issues in the context of strategy and long-term value creation.

ESG Working Group

To demonstrate our commitment to transparency and accountability, our Group has established an ESG Working Group, which has clear terms of reference that set out the powers delegated to it by the Board. We highly value the opinions of each stakeholder and treat them as the cornerstone for the development of the Group. During the year ended 31 December 2022 (the "Reporting Period"), the ESG Working Group consisted of 6 members, including 3 executive directors and 3 independent non-executive directors.

The ESG Working Group is primarily responsible for reviewing and supervising the ESG process, and risk management of the Group. Different ESG issues are reviewed by the Working Group at the meetings, which holds annually. During the Reporting Period, the ESG Working Group and the management reviewed the ESG governance and different ESG issues.

Board's ESG management approach and strategy for material ESG-related issues

In order to better understand the opinions and expectations of different stakeholders on our ESG issues, materiality assessment is conducted each year. We ensure various platforms and channels of communication are used to reach, listen and respond to our key stakeholders. Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has evaluated the materiality and importance in ESG aspects through the steps: (1) material ESG area identification by industry benchmarking; (2) key ESG area prioritization with stakeholder engagement; and (3) validation and determining material ESG issues based on results of communication among stakeholders and the management.

Hence, this can enhance understanding of their degree and change of attention to each significant ESG issue, and can enable us to more comprehensively plan our sustainable development work in the future. Those important and material ESG areas identified during our material assessment were discussed in this Report.

Board review progress against ESG-related goals and targets

The progress of target implementation and the performance of the goals and targets should be closely reviewed from time to time. Rectification may be needed if the progress falls short of expectation. Effective communication about the goals and target process with key stakeholders such as employees is essential, as this enables them to be engaged in the implementation process, and to feel they are part of the change that the company aspires to achieve.

Setting strategic goals for the coming three to five years enables the Group to develop a realistic roadmap and focus on results in achieving the visions.

Setting targets requires the ESG Working Group to carefully examine the attainability of the targets which should be weighed against the company's ambitions and goals. During the year, our Group set targets on an absolute basis.

Environmental, Social and Governance Report

A. ENVIRONMENTAL ASPECTS

As one of the world's leading manufacturers specializing in aerosol products, the Group recognizes that it has an obligation to reduce the impact of our operations on the environment and be accountable for the resources and materials that are used in our daily operations. The Group promotes environmental stewardship throughout our business ecosystem by introducing a number of measures to enhance the environmental protection awareness among its employees, encouraging them to develop environment-friendly working habits and to take action in protecting the precious environment. The Group also pledges to uphold quality environmental management. The Group has continuously improved its environmental management systems, which is certified conforming to the higher level of international standards from ISO14001:2004 to ISO14001:2015. Based on ISO14001:2015, the group has implemented a set of internal policies and procedures for conserving resources, managing the wastes and minimising the pollution.

Throughout the year, the Group fully complied with all of the relevant environmental laws and regulations in the countries and regions, such as the Environmental Protection Law of the People's Republic of China in the PRC and the Air Pollution Control Ordinance (Cap. 311) in Hong Kong. Besides, no concluded cases regarding environmental issues were brought against the Group. As our Group continues to develop, we are committed to continuously improving the environmental sustainability of our business, ensuring that environmental considerations remain one of the top priorities in our daily business operations and that we fulfil our obligations to both the environment and community.

A1. EMISSIONS

As a manufacturer, the Group recognizes that it has ethical duties to reduce emissions. Given that most of our operations is manufacturing based, the Group engages a qualified testing company to conduct regular testing on air pollutants, wastewater and noise emitted or produced to ensure that their emission levels are within the allowable levels as stipulated in the relevant emission standards of the PRC. In the meantime, the Group fully complies with all of the relevant environmental laws and regulations in the countries and regions where we operate such as the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (2015) in the PRC, the Motor Vehicle Idling (Fixed Penalty) Ordinance (Cap. 611) and the Road Traffic Ordinance (Cap. 374) in Hong Kong. Besides, no concluded cases regarding emissions brought against the issuer or its employees during the year.

Air Pollutants Emission

Air pollutants emission control is vital to both environmental protection and the health of employees. The Group understands that its manufacturing process involves the use of different chemicals which causes various air pollutants emission, including volatile organic compounds (VOCs). The Group strives to improve the air quality. During the year, the Group implemented "Treatment Information to VOCs to control VOCs emission from source and production processes. The Group carries out testing regularly on the VOCs emission level to improve the VOCs management procedure.

The Group also strictly complies with "Ambient Air Quality Standards (GB3095-2012)", "Integrated Emission Standard of Air Pollutants (GB16297-1996)", etc. for the air pollutants emission. The exhaust gas is collected for handling to reduce the pollutants before emission to the atmosphere. Methods to reduce the air pollutants include cyclone dust collector and activated carbon absorption.

The Group's air pollutant emissions are classified into two sources – stationary and mobile. During the Reporting Period, stationary source was our major source of air pollutant emission for manufacture of aerosol and related products. The decrease in air pollutant emission in 2022 was mainly attributable to the effective implementation of energy saving policy during the year. Furthermore, the Group targets to reduce the emission of air pollutants by 3% by 2025.

The air pollutant emission of the Group during the Reporting Period is as follows:

Type of Air Pollutants	Unit	Aerosol business	Clean energy business	Investment holding business	2022 Total	2021 Total
Nitrogen oxides (NO_x)	kg	482.09	0.38	–	**482.47**	798.76
Sulfur dioxide (SO_2)	kg	60.50	0.07	–	**60.57**	19.23
Particulate matter (PM)	kg	13.15	0.07	–	**13.22**	104.54

Greenhouse Gas ("GHG") Emission

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

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

In 2017, the Group activity acquired a group company which was engaged in clean energy business of collection and utilisation of sewage source thermal energy in the PRC. This new clean energy can replace the use of conventional energy, such as burning of coal, to supply heat to the building. Regarding GHG emission of the Group, scope 1 direct emissions mainly consisted of combustion of fuels in stationary sources, combustion of fuels in mobile sources, and assimilation of carbon dioxides into biomass through planting of trees; and scope 2 indirect emissions mainly consisted of electricity purchased from power companies. During the Reporting Period, purchased was our major source of GHG emission. The decrease in the emission of greenhouse gas in 2022 was mainly attributable to the effective implementation of energy saving policy during the year. Furthermore, the Group targets to reduce the emission of greenhouse gas by 5% by 2025.

The GHG emission of the Group during the Reporting Period is as follows:

GHG Emission[1]	Unit	Aerosol business	Clean energy business	Investment holding business	2022 Total	2021 Total
Scope 1[2]	tonnes of CO_2-e	119.46	2.08	–	**121.54**	163.94
Scope 2[3]	tonnes of CO_2-e	2,147.92	3,746.26	3.28	**5,897.46**	7,183.77
Total GHG emission	tonnes of CO_2-e	2,267.38	3,748.34	3.28	**6,019.00**	7,347.71
GHG emission intensity	Aerosol: tonnes of CO_2-e/ tonnes of production	0.072				Aerosol: 0.051
	Clean energy: tonnes of CO_2-e/m^2		0.011			Clean energy: 0.013
	Investment: tonnes of CO_2-e/m^2			0.003		Investment: 0.002

Hazardous and Non-hazardous Wastes

The Group recognizes the importance of waste reduction. Waste management measures have been introduced and implemented to minimize the amount of waste generated and the impact on the environment. The Group's "Solid Wastes Management System" provides guideline on classification, collection, storage and disposal of different wastes. Wastes are classified into hazardous waste, production waste and general waste by the Group. Each type of waste has specific storage location and collection procedures.

1 The calculation of the greenhouse gas emission is based on the "Corporate Accounting and Reporting Standard" from Greenhouse Gas Protocol.

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

3 Scope 2: Indirect emissions from purchased electricity consumed by the Group.

The hazardous wastes produced during our production process are separately stored with label and handled in accordance with the relevant PRC laws and regulations, for example, National Hazardous Waste Inventory (2008) during our production process. Besides, the Group has commissioned a qualified waste collector to handle and collect the hazardous waste produced in the aerosol product manufacturing process so as to minimize the impact on the environment.

For non-hazardous waste, the waste is mainly generated from daily office operation. The Group takes initiative to reduce waste by formulating effective measures. Generally, the Group has engaged qualified recycling companies to collect and handle the waste in accordance to the Prevention and Control of environmental Pollution by Solid Waste (2015 Amendment) in the PRC and the Waste Disposal Ordinance (Cap. 354) in Hong Kong.

For office, the Group promotes the idea of green office by introducing more paperless solutions in its daily operations to reduce the volume of paper and printed materials used. The Group introduces knowledge on environmental protection to all employees and encourages them to consider environmental-friendly printing such as double-sided printing and copying. The Group also encourages employees to bring their own cups to the meeting to minimize the use of paper and paper cups. The daily operation of clean energy business and investment holding business for non-hazardous waste generation is not material for disclosure as the non-hazardous waste generated is insignificant. During the Reporting Period, the decrease in non-hazardous wastes amount in 2022 was mainly attributable to the strict compliance with our waste management policies during the year. The Group has set comprehensive reduction target by 5% reduction in non-hazardous waste generation by 2025.

The wastes generated by the Group in 2022 are as follows:

Wastes disposal	**Unit**	**Aerosol business**	**Clean energy business**	**Investment holding business**	**2022 Total**	2021 Total
Hazardous waste	tonnes	9.45	–	–	**9.45**	12.44
Hazardous waste intensity	tonnes/tonnes of production	0.00030	–	–	**0.00030**	0.00021
Non-hazardous waste	tonnes	161.37	–	–	**161.37**	156.13
Non-hazardous waste intensity	tonnes/tonnes of production	0.0051	–	–	**0.0051**	Aerosol: 0.0026

Wastewater

The Group has obtained pollutant emission permit for wastewater to ensure all wastewater generated during our production process can be safely handled according to the national safety standards before external discharge. There is a wastewater treatment facility in the Group's aerosol business. The wastewater generated during the production process needs to be treated before discharging to ensure it complies with the Integrated Wastewater Discharge Standard (GB8978-1996) in the PRC. During the Reporting Period, around 8,750 m^3 (2021: 10,000 m^3) of wastewater was treated and discharged, representing a decrease of approximately 12.5% (2021: a decrease in 19%) as compared with that of in previous period. Wastewater is strictly forbidden to be mixed with rainwater. They are collected by two separate systems to prevent pollution to ground water.

A2. USE OF RESOURCES

The Group considers environmental protection as an essential component of a sustainable and responsible business. The Group has an in-depth understanding of the importance of safeguarding sustainable development of the environment and this to attach importance to efficient utilization of resources by introducing various measures in daily business operations. It understands that staff participation is the key to achieve such goals. The Group strives to build up a working environment that emphasizes the "Green office" and "Low Carbon" policy such as a set of guidelines to improve the efficient use of energy, water and other resources for long-term sustainability.

Energy

The Group considers environmental protection as an essential component of a sustainable and responsible business. With aims of resource saving and implementation of energy saving measures, the Group actively promotes the concept of energy saving and emission reduction into the entire process of its business development and operation. For example, the Group has established policies and procedures, including "Energy Saving and Emission Reduction Control Plan" to achieve these goals. In the meantime, the Group believes that increasing environmental awareness is the basis for energy reduction initiative. The Group carries out extensive promotion and educational activities in order to enhance employees' awareness. Besides, the Group has implemented different measures to reduce energy consumption. For example, the temperature of air-conditioners should not be set below 26 degrees Celsius in summer and set above 20 degrees Celsius in winter. Smart use of lighting is encouraged by using natural light in day time to reduce the usage of lighting. Empty running of equipment, such as printers is not recommended and our staff are encouraged to switch off all the electronic appliances when leaving the office.

Apart from measures to reduce the use of electricity, the Group also sets guideline to effectively use the vehicles to reduce the fuel consumption. The Group chooses fuel-saving vehicles with high emission standards and improves the vehicles utilization by planning the travelling routes before staff use and goods delivery. Moreover, the Group strictly complies with the Energy Conservation Law of the People's Republic of China and the relevant documents and regulations in the countries and regions where we operate. The Group is also planning to develop a long-term mechanism for energy management with the aim to review energy consumption and set target for energy reduction. With all these measures and energy planning, the Group hopes to use energy more effectively and efficiently to save resources for the environment.

The Group energy consumption is classified into five types – (i) purchases electricity, (ii) petrol, (iii) diesel oil, (iv) liquefied petroleum gas, and (v) Towngas. During the Reporting Period, purchased electricity was our major energy consumption source for daily office operation. The decrease in total energy consumption in 2022 was mainly attributable to the effective implementation of energy saving policy during the year. The Group has set inclusive total energy consumption reduction target by 3% by 2025.

The energy consumption of the Group in 2022 is summarised as follows:

Energy consumption	**Unit**	**Aerosol business**	**Clean energy business**	**Investment holding business**	**2022 Total**	2021 Total
Purchased electricity	MWh	2,669.56	3,870.10	4.62	**6,544.28**	8,030.72
Petrol	MWh	286.70	8.50	–	**295.20**	367.40
Diesel	MWh	183.47	–	–	**183.47**	261.05
Liquefied petroleum gas (LPG)	MWh	–	–	–	**–**	–
Towngas	MWh	26.16	–	–	**26.16**	42.57
Total energy consumption	MWh	3,165.89	3,878.60	4.62	**7,049.11**	8,701.74
Energy consumption intensity	Aerosol: MWh/tonnes of production	0.100				Aerosol: 0.012
	Clean energy: MWh/m²		0.012			Clean energy: 0.013
	Investment: MWh/m²			0.005		Investment: 0.003

Water

Water is another important resource used for the daily operation. Regarding water consumption for clean energy business in the PRC, it does not involve any water consumption during its daily business operation. In order to save water, water taps should be turned off right after using. Running, dripping and long-flowing water are avoided. In the manufacturing process of the aerosol business, the Group reuses water to reduce the water usage and closely checks the water recycling system to prevent leakage and wastewater discharged to the environment. The decrease in water consumption in 2022 was mainly attributable to the effective implementation of water saving policy during the year. The Group has set a reduction target of 5% in water consumption by 2025.

The water consumption of the Group during the Reporting Period is as follow:

Water	Unit	Aerosol business	Clean energy business	Investment holding business	2022 Total	2021 Total
Water consumption	m^3	139,908	–	–	**139,908**	151,854
Water consumption intensity	Aerosol: m^3/tonnes of production	4.43	–	–	**4.43**	Aerosol: 2.53
	Investment: m^3/m^2				**–**	Investment: –

Packaging Materials

The major packaging materials used in our aerosol business are paper, metal and plastic, while there is no packaging material involved in our clean energy business and investment holding business. The decrease in amount of packaging materials in 2022 was mainly attributable to the effective implementation of packaging material usage management policy during the year. The Group has set a reduction target of 5% in packaging materials by 2025.

The consumption of those materials of the Group during the reporting year is summarized below:

Packaging materials	Unit	Aerosol business	Clean energy business	Investment holding business	2022 Total	2021 Total
Paper	tonnes	2,031.01	–	–	**2,031.01**	3,636.07
Plastic	tonnes	822.98	–	–	**822.98**	1,587.48
Metal	tonnes	5,322.00	–	–	**5,322.00**	9,593.44
Packaging materials intensity	tonnes/tonnes of production	0.26	–	–	**0.26**	Aerosol: 0.25

A3. THE ENVIRONMENT AND NATURAL RESOURCES

As a manufacturing company, we recognise our impact on the environment in our daily operations. To minimise the significant impact on the environment and natural resources, the Group has established "Environmental Management System" to outline procedures on planning and execution of environmental control programme in the operation. We comply with relevant laws and regulations, including Environmental Protection Law in the PRC. Besides, the Group has made achievement in sustainable development in the industry. Zhejiang Ludao Technology Co., Ltd., was awarded "浙江省清潔生產階段成果企業". This shows that the management of the Group effectively implements measures for good environmental protection.

A4. CLIMATE CHANGE

Governance

Our group addresses climate-related risks based on the nature of the risk to our operations. The physical impacts of climate change, including extreme weather events, or damage to facilities have immediate operational impacts and are treated as operational risks. Long-term challenges, such as emerging ESG issues and climate-related risks and opportunities, may be discussed by the Group's ESG Working Group.

Supported by our ESG Working Group, our Board oversees climate-related issues and risks regularly during board meetings and ensures that they are incorporated into our strategy.

To ensure our Board to keep up with the latest trend of climate-related issues, climate competence training will be provided to ensure it has the necessary expertise and skills to oversee the management of climate-related issues. Our Board also seeks professional advice from external experts when necessary to better support the decision-making process.

Our ESG Working Group provides effective governance for integrating and addressing ESG issues, including climate change, within our business. The ESG Working Group is responsible for approving operational emissions targets for the Group and commissioning an ESG benchmarking, as well as gap analysis exercise to identify gaps in both disclosure and policy relative to the best practice standards. Moreover, the ESG Working Group works closely with the Group's different operation departments, with an aim to develop consistent and enhanced approaches on addressing ESG risk issues and report to the management.

Strategy

Climate change risk forms part of our overall risk profile through its role in increasing the frequency and intensity of certain diseases, and the health and mortality impacts resulting from natural disasters. We assess the overall level of risk by taking into consideration a range of diverse risk factors across the many categories in our services range. This diversity of risk is combined with our business strategy and broad geographic footprint helps us mitigate risk and provide protection against the impacts of short-term climate change effects.

Our products and services continue to provide protection for people in our communities against weather and heat-related disease. Besides, we continue to explore opportunities to engage our business partners and encourage them to develop climate resilience and reduce their operational carbon footprint by taking into consideration of different climate-related scenarios, including a "2ºC or lower scenario" through the following steps:

Step 1: Set Future Images Assuming Climate Change Effects

As climate change measures proceeds, there is a possibility that the industry will be exposed to substantial changes, such as stricter policies including the introduction of and increases in carbon pricing, as well as advances in technology and changes in customer awareness.

In light of these climate change effects, based on the International Energy Agency ("IEA") scenarios and others, we developed multiple future images as the external environment that will surround our Group. With regard to the IEA scenarios, we put focus on the 2ºC scenario (2DS) and pictured future images in case where climate change measures do not progress and where such measures progress further "Beyond 2ºC scenario".

Step 2: Consider the Impacts

We considered the impacts on our Group for each of the future images developed in Step 1. We believe that in such a society, it will be possible to expand carbon dioxide reduction effects.

With regard to effects on raw material procurement and production, introduction of and increases in carbon pricing is anticipated in accordance with the global advance of climate change measures, leading to the possibility of higher raw material procurement and production costs.

On the other hand, in the case where climate change measures are not adequate throughout society, production interruptions and supply chain disruptions are likely to increase as a result of higher frequency and intensification of natural disasters such as flooding.

Step 3: Respond to the Strategies

Our Group will begin promoting the reduction of non-renewable energy in our daily operation. This strategy will allow for flexible and strategic responses to each demand for the regions where the emission factors of purchased electricity consumptions are high. By promoting real carbon emissions reductions throughout the world through comprehensive energy-saving policies and introduction of renewable energy, we are working to achieve zero carbon emission in our business.

We minimize carbon emissions through comprehensive energy-saving and introduction of renewable energy. With respect to renewable energy in particular, we have set a new target, achieve a reduction rate for purchased electricity in coming few years.

With regard to the ongoing confirmation of the suitability and progress of the Group's strategies, we believe that we will have opportunities for stable funding and sustainable increases in corporate value through appropriate information disclosure, dialogue with institutional investors and other stakeholders.

Risk Management

Our Group identifies the climate change related risks or to test the existing risk management strategies under climate change with the aid of risk assessment. Hence, the areas where new strategies are needed could be identified.

The risk assessment takes a standard risk-based approach using national data, local information and expert knowledge, which can identify how climate change may compound existing risks or create new ones. The risk assessment is conducted through the following steps:

Step 1: Establish the context

- Objective/goal
- Scale
- Time frame
- Climate change scenario for most climate variables and sea level

Step 2: Identify existing risk (past and current)

- Identify the record of occurrence of climatic hazard in the past in the area
- Risk management strategies in place to tackle future occurrence of the hazard

Step 3: Identify future risk and opportunities

- Explore climate change projections for the selected time frame(s) and emission scenario(s)
- Identify potential hazards
- Investigate whether any existing risk from Step 2 may get worse under future projected changes
- Identify new risks that can emerge under future projected changes

Step 4: Analyse and evaluate risk

- Identify a set of decision areas or systems (i.e., geographical areas, business operation, assets, ecosystems, etc.) that has the potential to be at risk in future

As outlined within the Governance section above, the Group has robust risk management and business planning processes that are overseen by the board of directors in order to identify, assess and manage climate-related risks. The Group engages with government and other appropriate organizations in order to keep abreast of expected and potential regulatory and/or fiscal changes.

We continue to raise awareness of climate change in regard to monitoring of carbon and energy footprint in our daily operation. However, there remains gaps in understanding how such climate risks and opportunities may impact our operations, assets and profits. Our Group assesses how the business addresses climate change risks and opportunities and takes the initiative to monitor and reduce their environmental footprint.

Significant Climate-related Issues

During the Reporting Period, the significant climate-related physical risks and transition risks, which have impacted and/or may impact our Group's business and strategy in (i) operations, products and services, (ii) supply chain and value chain, (iii) adaptation and mitigation activities, (iv) investment in research and development, and (v) financial planning, as well as the steps taken to manage these risks, are as follows:

Climate-related risks description	Financial impact	Steps taken to manage the risks
Physical Risk		
Acute physical risks		
– Increased severity and frequency of extreme weather events such as cyclones and floods, strong wind. Hence, staff are easily injured. In addition, under the extreme weather events, the costs of transportation, communications and living increase, which may lead to financial loss. – Increased likelihood and severity of wildfire, which may hinder the operations of factories. Financial loss occurs due to the interruption of supply chain, logistics and transportation.	– Operating cost increases – Capital cost increases due to the damage of facilities	– Planned to adopted scenario analysis to disclose an organization's planning under future scenarios, most notably one with in a "2ºC scenario". – Established a natural disasters emergency plan.

Climate-related risks description	Financial impact	Steps taken to manage the risks
Chronic physical risks		
– Prolonged hot weather may increase the energy consumption. – Climate change brings uncertainties to the environments of production and sales. Although direct losses will not be incurred by the company, this may still affect and limit the product sales and services significantly. – Prolonged climate change may detriment the human's health. Continuation of temperature rise can increase the fatality rates and incidence rates of some diseases, especially the one related to cardiac and respiratory system; the spread of some climate-sensitive diseases such as malaria and dengue fever may increase.	Revenue reduces from decreased production capacity and the negative impacts of workforce.	– Planned improvements, retrofits, relocations, or other changes to facilities that may reduce their vulnerability to climate impacts and increase the climate resilience in long term. – Engagement with local or national governments and local stakeholders on local resilience.

Climate-related risks description	Financial impact	Steps taken to manage the risks
Transitional Risk		
Policy risk		
– As a result of energy efficiency requirements, carbon-pricing mechanisms increase the price of fossil fuels, or policies to encourage sustainable land use, hindering the area of expansion, which increase the operation cost. – Mandates on and regulation of existing products and services as of the tightened environmental and safety laws and standards of oil. We have to spend much compliance cost to update or maintain the equipment to fulfil the new regulations.	– Operating cost increases due to increased insurance premiums for the factories. – Risk of trade increases.	– Planned to be involved in carbon trading and adoption of clean energy in the operations to reduce the carbon emissions. – Monitor the updates of the relevant climate-related environmental policies, to avoid the unnecessary increase in cost and expenditure due to the violation of the climate-related environmental policies.
Legal risk		
– Exposure to litigation. We have to adapt the tightened law and regulations issued by the government due to climate change, and they have the risk of litigation once they failed to obligate the new rules. – Enhanced emissions-reporting obligations. We may have to spend much time on fulfilling the report standards to comply the new obligations.	– Operating cost increases for high compliance costs and increased insurance premiums for the Group.	– Monitored the updates of environmental laws and regulations and implemented GHG emissions calculations in advance.

Climate-related risks description	Financial impact	Steps taken to manage the risks
Technology risk		
– Developing the low carbon energy-saving products and energy saving technologies, the capital investment and R&D expense increase consequently. – More green building strategies with low-carbon, energy-saving technologies are adopted by industry peers. Lagging behind may weaken our competitive edges.	– Capital investment in technology development increases.	– Planned to invest in the innovations of energy saving products. – Examined the feasibility and benefits of applying the latest low-carbon and energy-saving technologies into our operation.
Market risk		
– More customers are considering climate-related risks and opportunities, which may lead to changes in customers' demand for products. – Uncertainty in market signals. "How environmentally friendly the product is" becomes one of the factors to affect the product selling price. – Increased cost of raw materials. More environmentally-friendly raw materials may be much expensive, which may increase the cost.	– Revenue decreases for the change in revenue mix and sources. – Operating cost increases as abrupt and unexpected shifts in energy costs. – Production cost increases due to changing input prices and output requirements.	– Tightened the control of the environmental hazardous materials in our products and studied the application of recycled materials.

Climate-related risks description	Financial impact	Steps taken to manage the risks
Reputational risk		
– Unable to fulfil the expectations of the customers, damage the Group's reputation and image. – Stigmatization of our business sector, such as more stakeholder concern or negative stakeholder feedback on the product designed in a less environmentally-friendly way.	– Revenue decreases from decreased demand for goods and the decrease in production capacity. – Operating costs increases from negative impacts on workforce management and planning.	– Supported the green productions. – Fulfilled the social responsibility by organizing more activities or executing actions to demonstrate how we place importance on climate change.

During the Reporting Period, the primary climate-related opportunities and the corresponding financial impacts were as follows:

Detailed description of climate-related opportunities	Financial Impact
Resource efficiency	
– Reduce more packaging material usage – Reduce water usage and consumption	– Operating cost reduces through use of lowest cost abatement
Energy source	
– Use of lower-emission fuel sources – Use of supportive policy incentives – Use of new technologies	– Operating cost reduces through use of lowest cost abatement – Returns on investment in low-emission technology increases

Detailed description of climate-related opportunities	Financial Impact
Products and services	
– Development of climate adaptation and insurance risk solutions – Ability to diversify business activities	– Revenue increases through new solutions to adaptations needs, such as insurance risk transfer products and services
Markets	
– Access to new markets	– Revenue increases through access to new and emerging markets
Resilience	
– Participation in renewable energy programs and adoption of energy-efficiency measures	– Market valuation increases through resilience planning, such as infrastructure, land and buildings
– Resource substitution or diversification	– Reliability of supply chain and ability to operate under various condition increases – Revenue increases through new products and services related to ensuring resiliency

Metrics and Targets

Our Group adopts the key metrics to assess and manage climate-related risks and opportunities. The energy consumption and greenhouse gas (GHG) emissions indicators are the key metrics used to assess and manage relevant climate-related risks where we consider such information is material and crucial for evaluating the impact of our operation on global climate change during the year. Our Group regularly tracks our energy consumption and GHG emissions indicators to assess the effectiveness of emission reduction initiatives, as well as set targets to contribute our effort to have minimal impact on global warming.

The details of time frames over which the target applies and base year from which progress is measured are described in the section A1: “Emissions” and section A2: “Use of Resources” of this Report. Our Group adopts absolute target to manage climate-related risks, opportunities and performance.

B. SOCIAL ASPECTS

The Group recognizes that maintenance of strong, healthy and friendly business relations with employees, supply chains, and a business is connected or expected to have a connection, whether internal or external, is the foundation for the Group’s success and development. The Group highly considers employees as important assets and is committed to earning respect from employees, maintaining work-life balance, and making them to grow together with us. With supporting business sustainable development, the Group works closely with suppliers to manage social risks. Besides, with a goal of understand the needs and interests of communities where the issuer operates, the Group takes its own initiatives to actively contribute to the society in various ways.

B1. EMPLOYMENT

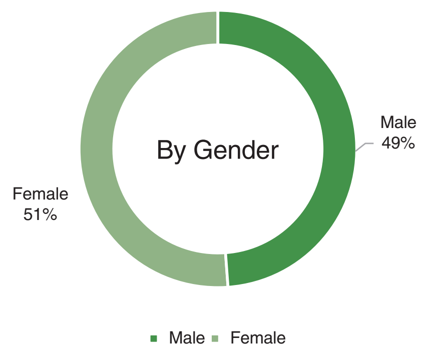
The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide a good working environment to employees where they can have a safe and healthy workplace to engage and perform to the satisfaction of the Group. These policies and procedures not only ensure the Group's compliance of the relevant labour laws and regulations in places where it operates, but also set out the Group's standard of staff recruitment, promotion guidelines, remuneration scale, working hours, rest breaks, holidays as well as termination of employment and compensation matters. Labour contracts or employment agreements are entered between the Group and the employees, which clearly state the relevant details in order to safeguard mutual interest and benefits. Besides, the Group has established various communication channels with its employees, including staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication, etc, with the aim to understand their needs. Specific form of communication can also be made subject to the communication content and characteristics of participants.

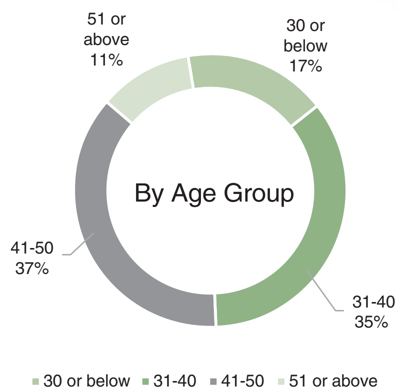
The Group respects the employees' rights. All of the employees of the Group are treated equally. Their employment, remuneration and promotion are not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status. The Group formulates and regularly reviews the human resources plan in accordance with its development plan and strategic goals. Apart from making external recruitment plan for continuous injection of fresh blood to the Group, the Group forms internal staff training and talent reserve plan, and establishes all-level position selection and evaluation system to optimise human resources allocation and internal promotion in order to nurture prospective employees to be future leaders in their respective expertise areas.

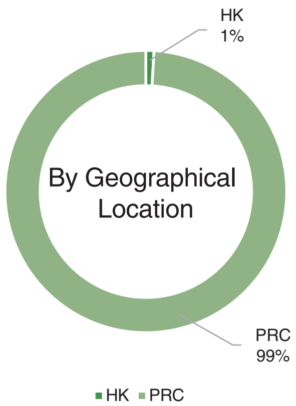
The Group strictly complies with the national laws and the system of the Group, and to refuse violation of business ethics. Throughout the year, the Group fully complied with all of the relevant laws and regulations in the countries and regions, such as the Employment Ordinance (Cap. 57), the Minimum Wage Ordinance (Cap. 608), the Labour Law of the People's Republic of China, and other relevant regulations where we operated without violating the relevant rules and regulations including the workers' wages and overtime payments. Related benefits are made with reference to the local minimum wage standard. Holidays and statutory paid leaves are in compliant with the requirements in the PRC and Hong Kong.

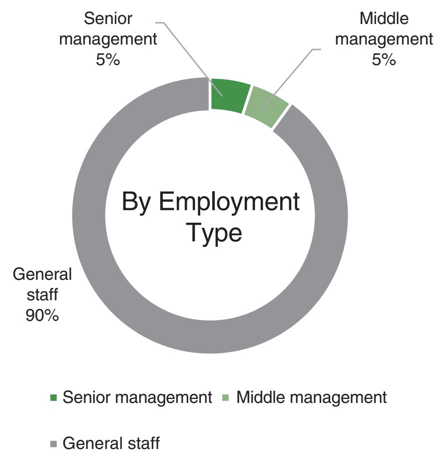
At the end of the Reporting Period, the Group has 383 employees (2021: 430 employees) located in the PRC and Hong Kong. Below is the employee breakdown by gender, age group, employment category, employment mode and geographical region.

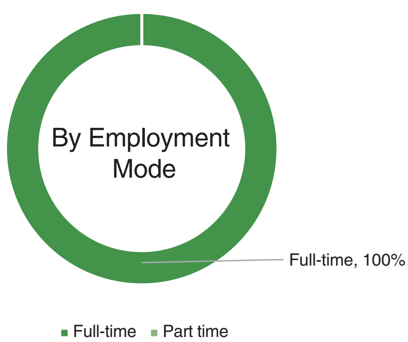
2022











Employee compositions	2022	2021
By gender		
• Male	**49%**	51%
• Female	**51%**	49%
By age group		
• Age 30 or below	**17%**	16%
• Age 31-40	**35%**	36%
• Age 41-50	**37%**	36%
• Age 51 or above	**11%**	12%
By geographical region		
• Hong Kong	**1%**	1%
• PRC	**99%**	99%
By employment category		
• Senior management	**5%**	4%
• Middle management	**5%**	6%
• General	**90%**	90%
By employment mode		
• Full-time	**100%**	100%
• Part-time	**–**	–

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

	Turnover rates (%)	
Employment	2022	2021
By gender		
– Male	**44%**	48%
– Female	**32%**	45%
By age group		
– 30 years old or below	**54%**	84%
– 31-40 years old	**38%**	50%
– 41-50 years old	**29%**	30%
– 51 years old or above	**41%**	20%
By geographical region		
– PRC	**38%**	47%
– HK	**–**	–
Overall	**38%**	46%

B2. HEALTH AND SAFETY

The Group takes into consideration every precaution to establish a healthy and safe working environment for its employees. In order to provide better safety working environment for all staff, the Group has obtained OHSAS 18001:2007 Occupational Health and Safety Management Certification which is an international standard to prove the Group has established an occupational health management system to identify, control and reduce the risks associated with health and safety within the workplace. In addition, the Group's system also strictly complies with the rules and guidelines stipulated in the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases, the Occupational Safety and Health Ordinance (Cap.509) by the Labour Department in Hong Kong and any other applicable laws and regulations. The system can prevent, control and eliminate any occupational diseases. In order to ensure occupational safety and health of our employees in the production process, the Group has adopted the following key measures:

- Every employee must receive health and safety training before performing the job duty. Periodic self-rescue training courses are provided to employees.
- First aid equipment, such as emergency showers and eyewash facilities, is installed in the production sites. It is checked regularly to ensure that it is in good condition.
- Personal protective equipment is provided to employees.
- Annual medical check is offered to employees.

In addition, the Group has set up environmental, health and safety ("EHS") committee to regularly monitor the EHS situation and the result is recorded for reference. If any serious incident related to health and safety is detected, an analysis is carried out promptly and measures are formulated to prevent similar incident from happening. Our contractors are expected to follow the same health and safety standard when working with us. They are offered with training before starting the work.

B3. DEVELOPMENT AND TRAINING

The Group believes that retaining talents is a core part of sustainability development to strengthen its competitiveness. In order to enable staff to keep abreast of the aerosol industry and maintain high-quality organisation structure, the Group offers various training programs to employees according to their job positions, and earmarks funds for staff training based on operation needs and annual training plan each year. Training mainly focuses on safety and product knowledge which are our primarily concern as a manufacturing company. In addition, the Group has established a comprehensive training system and mechanism to provide on-job teaching and training for its employees with a view to enhancing skills and management capabilities of the staff to offer smooth promotion channels. Continuous assessment is conducted to keep track on the performance of employees. Based on the analysis of the development needs, the management of the Group keeps ongoing selection of outstanding candidates for priority training through various methods such as internal aptitude tests, on job trainings and examinations and seniors' recommendations. During the Reporting Period, the Group provided appropriately 25,000 hours (2021: 32,000 hours) of internal and external training to its employees.

During the Reporting Period, the percentage of employees received training by gender and employment category was as follows:

Percentage of employees trained (%)	**2022**	2021
By gender		
• Male	**89%**	94%
• Female	**92%**	101%
By employment category		
• Senior management	**77%**	86%
• Middle management	**86%**	90%
• General	**94%**	109%
Overall	**93%**	98%

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

Training	Average Training hours *(hours/employee)*		Composition of employee trained *(%)*	
	2022	2021	**2022**	2021
By gender				
• Male	**61**	67	**50%**	50%
• Female	**58**	72	**50%**	50%
By employment category				
• Senior management	**36**	60	**3%**	3%
• Middle management	**58**	77	**6%**	6%
• General	**62**	76	**91%**	91%

B4. LABOUR STANDARDS

The Group respects the human rights of employees, and is strongly against the employment of child labour and forced labour. The Group is strictly in compliance with the relevant laws and regulations, such as the Labor Law of the People's Republic of China. We pursue fair and equitable principle, promote equal opportunity in recruiting and promotion for employees and prohibit any kind of forced labor. The Group solely considers the knowledge, character, ability and experience of candidates to meet the appropriate conditions of service, regardless of his/her gender, race and family status, etc. The Group strictly complies with the Provisions on the Prohibition of Using Child Labor issued by the State Council of the People's Republic of China. According to the "Prohibition of Child Labour Control Procedure" of the Group, person under aged 16 is not allowed to work in the Group. The Group respects the right and freedom of employees as stipulated in "Prohibition of forced labour control procedure". During the Reporting Period, the Group did not have any cases related to child labour or forced labour.

B5. SUPPLY CHAIN MANAGEMENT

The Group relies on suppliers to supply different production materials, including raw materials, packaging materials, etc. We are aware of the potential environmental and social risks associated with our supply chain and committed to minimising such risks in the cooperation with our suppliers.

Therefore, we have implemented a strict selection process on our suppliers, taking into consideration the elements such as supplier qualification, business reputation, past performance and price. The Group closely monitors and performs annual review on the performance of its suppliers to ensure the product quality. For those products that do not meet the product quality and safety requirement, they will be specifically distinguished and handled to avoid misuse and delivery. We maintain a long-term cooperation with our suppliers based on the result of annual review.

The geographical distribution of major suppliers is as follows:

Geographical region	Number of suppliers	
	2022	2021
Mainland China	**342**	322
– Zhejiang Province	**126**	124
– Shanghai	**70**	63
– Guangdong Province	**67**	62
– Jiangsu Province	**50**	46
– Beijing	**1**	1
– Hebei Province	**3**	3
– Anhui Province	**4**	4
– Fujian Province	**4**	4
– Liaoning Province	**1**	1
– Shandong Province	**8**	7
– Jiangxi Province	**3**	3
– Tianjin	**2**	2
– Henan Province	**1**	1
– Yunnan Province	**1**	1
– Sichuan Province	**1**	–
Total	**342**	322

B6. PRODUCT RESPONSIBILITY

To continuously improve the product quality for pursuing customer satisfaction of our products, the Group has continuously improved its quality management system in accordance with the latest version of ISO 9001:2015 standard which is a revised high-level structure compared to the previous version of ISO 9001:2008. All products produced by the Group undergo relevant safety tests with appropriate safety labels affixed on the packaging. In addition, the Group has implemented a thorough “Recall Control Procedure” to protect the interest of the customer and to reduce the risk associated with product quality and safety. During the reporting period, no material products and service-related complaints were received, and no products sold or shipped subjected to recalls for safety and health reasons.

B7. ANTI-CORRUPTION

The Group is committed to preventing and monitoring any malpractice or unethical actions. The Group has established stringent policies, including “Anti-corruption and Anti-bribery Control Procedure” for anti-corruption and anti-fraud, which were communicated to the employees so as to provide them a whistle-blowing channel for reporting any suspected misappropriate actions to the Board. Employees are required to sign a “Commitment to Anti-bribery/Anti-corruption” to declare his/her compliance with the related laws. Our customers, suppliers and contractors are expected to follow the same standard when working with us. During the Reporting Period, the Group was in strict compliance with the related laws and regulations including the Prevention of Bribery Ordinance (Cap.201) and the Criminal Law of the People’s Republic of China and there was no legal case regarding corrupt practices brought against the Group or its employees.

The Group regularly provided the training materials to the directors and employees for their updated the knowledge of anti-corruption and enhance their awareness.

During the Reporting Period, the training of anti-corruption for directors and employees was conducted by the internal training and supplied of reading materials.

B8. COMMUNITY INVESTMENT

The Group is committed to contributing to the society and making its own efforts in the development of the community. Contribution to and maintaining harmonious relationship with the community in the region of operation are crucial for the sustainable development. The Group has established "Community Investment Policy", which aims to build trust and stable relationship with its stakeholders. During the Reporting Period, the management and the employees of the Group participated in assisting and supporting the local community development. In January 2022, the Group donated anti-epidemic materials worth RMB$1,675.04 to support Xianzhu Primary School against COVID-19 Pandemic. In June 2022, the Group donated RMB$200,000 to Emergency Relief Foundation in Sanmen. On 30 September 2022, RMB$57,850.08 was donated to Sichuan for the purpose of supporting earthquake victims.

During the Reporting Period, the management of the Group also actively provided support to the relevant authorities in Taizhou City in respect of epidemic prevention work, including the provision of disinfection products to local medical institutions on a priority basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

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KPI B5.1	Number of suppliers by geographical region	"Supply Chain Management"	64
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B6: Product Responsibility			
General Disclosure		"Product Responsibility"	65
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	No product sold or shipped subject to recalls for safety and health reasons during the Reporting Period	–
KPI B6.2	Number of products and service-related complaints received and how they are dealt with	–	–
KPI B6.3	Description and practices relating to observing and protecting intellectual property rights	–	–
KPI B6.4	Description of quality assurance process and recall procedures	–	–
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KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	–	–
B8: Community Investment			
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KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	–	–
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The Directors are pleased to present their report and the audited and consolidated financial statements for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group is principally engaged in the research and development, manufacture and sale of aerosol and related products and wholesales of personal care products in the PRC. Details of principal activities of the principal subsidiaries are set out in note 39 to the consolidated financial statements. There was no significant changes in the nature of the Group's principal activities during the Reporting Period. An analysis of the Group's performance for the Reporting Period by geographical segment is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

The discussion and analysis as required by Schedule 5 of the Companies Ordinance (Cap. 622), including a review of the business of the Group, an analysis using financial key performance indicators, a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the section headed "Management Discussion and Analysis" of this report. The discussion contained therein forms part of this Directors' Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment, giving back to the community and achieving sustainable growth. Details are set out in the section headed "Environmental, Social and Governance Report" of this Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with relevant laws and regulations that have a significant impact on the business and operation of the Group. For the year ended 31 December 2022, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

DONATION

During the year ended 31 December 2022, no donation was made by the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of comprehensive income on page 89.

The Board resolved not to recommend any final dividend for the year ended 31 December 2022.

Directors' Report

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders") to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's financial results, the general financial condition of the Group, the Group's current and future operations, the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants, liquidity position and capital requirement of the Group, surplus received from the Company's subsidiaries and any other factors that the Board deems appropriate. The Company's ability to pay dividends is also subject to the requirements of the Listing Rules and all relevant applicable laws, rules and regulations in the Cayman Islands, Hong Kong and the Articles of Association.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years is set out on page 200 of this report. This summary does not form part of the audited consolidated financial statements.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 29 May 2023 to Thursday, 1 June 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM to be held on Thursday, 1 June 2023, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 May 2023.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 25 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity of this report and note 39 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2022 and 31 December 2021, the Company does not have any reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of revenue from sales and purchases attributable to the Group's largest customers and suppliers are as follows:

	2022 %	2021 %
Sales		
– the largest customer	**20.0**	36.7
– five largest customers combined	**44.0**	65.4
Purchases		
– the largest supplier	**11.9**	22.1
– five largest suppliers combined	**33.3**	46.9

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

Directors' Report

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholder.

DIRECTORS

The Directors in office during the year and up to the date of this report were:

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

Independent non-executive Directors
Mr. Chan Yin Tsung
Mr. Ruan Lianfa
Ms. Yau Kit Kuen Jean

Pursuant to Rule 112 of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed shall hold office only until the next general meeting of the Company (in the case of filling a casual vacancy) or until the next following AGM of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the next following AGM.

Pursuant to Rule 108(a) of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Mr. Yu Yuerong and Mr. Wang Xiaobing shall therefore be retired at the forthcoming AGM by rotation and, being eligible, offer themselves for re-election. Pursuant to the code provision B.2.3 of the CG Code contained in Appendix 14 of the Listing Rules, any further appointment of independent non-executive Director serving for more than nine years should be subject to a separate resolution to be approved by the shareholders. Mr. Ruan shall therefore be retired at the forthcoming AGM and being eligible, offer himself for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

Save as disclosed in the paragraph headed "Events after the Reporting Period" of this report, no transactions, arrangements and contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which a Director, the connected party to the Director or a controlling shareholder of the Company had a material interest, either directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period and there was no transaction, arrangement or contract of significance for the provision of services to the Group by the controlling shareholder of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

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

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole and any substantial part of the Company's business was entered into or existed between the Company and any person who is not a Director or not engaged in the full-time employment of the Group during the Reporting Period.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the paragraph headed "Biographies of Directors and Senior Management" of this report.

CHANGE IN DIRECTORS' INFORMATION

Save as disclosed in the paragraph headed "Biographies of Directors and Senior Management" of this report, the Directors are not aware of any change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the publication of this annual report.

SHARE OPTION SCHEME

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

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

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

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

(a) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of our Group; and

(b) attract and retain or otherwise maintain ongoing business relationships with the Eligible participants whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, "Eligible Participants" means any person who satisfies the eligibility criteria in below. The Board may at its discretion grant options to:

(i) any Eligible Employees. "Eligible Employees" means employees (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital ("Invested Entity");

(ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;

(iii) any supplier of goods or services to any member of our Group or any Invested Entity;

(iv) any customer of any member of our Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group, and, for the purposes of the Share Option Scheme, options may be granted to any company wholly owned by one or more Eligible Participants.

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

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

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

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

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

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

As at 31 December 2022 and to the date of this report, the Company does not have any share options outstanding for issue under the Share Option Scheme.

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

As at 31 December 2022, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules, were as follows:

Long position in shares and underlying shares of the Company

	Number of Ordinary Shares			
Name of Directors	Personal interests/ Interest of spouse	Interests of a controlled corporation	Total	Approximate percentage of interests in the Company *(Note 1)*
Mr. Yu	–	241,652,000 *(Note 2)*	241,652,000	49.14%
Mr. Wang Xiaobing	1,200,000	–	1,200,000	0.24%

Notes:

(1) These percentages have been compiled based on the total number of issued shares (i.e. 491,800,000 shares) of the Company as at 31 December 2022.

(2) These shares are held by Ludao Investments, which is wholly and beneficially owned by Mr. Yu. As Ms. Wang Jinfei is the spouse of Mr. Yu, Ms. Wang Jinfei is deemed to be interested in all the shares held by Mr. Yu (through Ludao Investments) by virtue of the SFO.

Save as disclosed above, as at 31 December 2022, none of the Directors and chief executives of the Company, nor their associates, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2022, the following persons or corporations (other than a Director or chief executive of the Company), other than those disclosed in the paragraph headed "Directors' and Chief Executives' Interest in Securities", had notified the Company of its interests and/or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept under Section 336 of the SFO:

Long position in the shares and underlying shares of the Company

Name of shareholders	Capacity/Nature of interests	Total number of ordinary shares and underlying shares *(Note 1)*	Approximate percentage of interests in the Company *(Note 2)*
Ludao Investments *(Note 3)*	Beneficial owner	241,652,000	49.14%
Ms. Wang Jinfei *(Note 3)*	Interest of spouse	241,652,000	49.14%
Perfect Century Group Limited *(Note 4)*	Beneficial owner	35,400,000	7.20%

Notes:

(1) All the interests represent long positions.

(2) These percentages have been compiled based on the total number of issued shares of the Company (i.e. 491,800,000 shares) as at 31 December 2022.

(3) Ludao Investments is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Yu, the chairman and the executive Director of the Company. Ms. Wang Jinfei is the spouse of Mr. Yu and is therefore deemed to be interested in all the Shares held by Mr. Yu (through Ludao Investments) by virtue of the SFO.

(4) Perfect Century Group Limited is interested in 35,400,000 shares which include 11,800,000 shares and 23,600,000 underlying shares to be derived from the convertible bonds of a principal amount of RMB32 million (equivalents to HK$37.76 million) issued by the Company on 29 March 2018 at the conversion price of HK$1.60 per share.

Pursuant to the judgment made by the High Court of Hong Kong on 21 December 2021, the Company and Prosper One Development Limited are entitled to cancel and avoid or procure the cancellation and avoidance of the convertible bond issued by the Company to the Perfect Century Group Limited in the principal amount of RMB32 million. Accordingly, Perfect Century Group Limited is no longer entitled to convert the bond in the sum of RMB32 million into 23,600,000 underlying shares. As at the date of this annual report, the Company has not received any further notification from Perfect Century Group Limited in respect of any changes to notifiable interest.

Save as disclosed above, so far as is known to the Directors of the Company, no other person (other than the Directors and chief executive of the Company) had any interest and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which were or required to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or required to be recorded in the register required under section 336 of the SFO as at 31 December 2022.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Group had not entered into any connected transaction or continuing connected transactions which are not exempt under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group had not entered into any related party transactions.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report under Rule 8.08 of the Listing Rules.

Directors' Report

PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and officers arising out of corporate activities. The level of the coverage is reviewed annually. The permitted indemnity provision is in force for the benefit of the Directors on the date that the Directors approved this Directors' Report.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares during the year or subsisted during the year.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On 13 March 2023, the Company has settled the remaining portion of the Note in the principal amount of HKD40,000,000 (equivalent to approximately RMB35,731,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note. Details of the Note were set out in note 30 to the consolidated financial statements.

Save as disclosed above, there are no material subsequent events undertaken by the Group after 31 December 2022 and up to the date of this Directors' Report.

PROFESSIONAL TAX ADVICE RECOMMENDED

Shareholders who are uncertain about the tax implications of purchasing, holding, disposing of, dealing in or exercising any rights in relation to the shares of the Company should seek relevant expert for advice.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2022 have been audited by BDO Limited, who will retire at the forthcoming AGM of the Company and, being eligible, offer themselves for re-appointment.

By order of the Board

Yu Yuerong
Chairman

Hong Kong, 30 March 2023

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CHINA LUDAO TECHNOLOGY COMPANY LIMITED
(Incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Ludao Technology Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 89 to 199, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for expected credit losses ("ECLs") of trade receivables

As at 31 December 2022, the Group's trade receivables, gross and loss allowances thereon amounted to approximately RMB131,169,000 and RMB10,601,000 respectively.

ECLs for trade receivables is based on management's estimated of the lifetime ECLs to be incurred, which is estimated by taking into account the credit loss experience, ageing of trade receivables, customers' repayment history and an assessment of both the current and forecast macro economic conditions, all of which involve significant degree of management judgment.

We have identified ECLs assessment of trade receivables as a key audit matter because assessing ECLs of trade receivables is a subjective area as it requires the exercise of management's judgment and uses of estimates and the significance of the carrying amounts of trade receivables to the Group's consolidated financial statements.

Refer to Note 4 "Critical accounting estimates and judgments" and Note 19 "Trade and other receivables" to the consolidated financial statements.

Our response:

Our audit procedures in relation to the management's ECLs assessment on trade receivables included:

– assessing the application of the Group's policy for calculating the ECLs;

– assessing whether the calculations of ECLs was in accordance with HKFRS 9;

– assessing the scope, expertise and independence of the independent professional valuer appointed by the Group;

– evaluating valuation methodologies and parameters adopted in ECLs assessment, with the assistance of our internal valuation specialist;

– assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgments, including evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and

– testing on a sample basis the ageing of trade receivables at the end of year.

Impairment of prepayment for property, plant and equipment, property, plant and equipment and right-of-use assets

At 31 December 2022, the carrying amount of prepayment for property, plant and equipment, property, plant and equipment and right-of-use assets (together the "Specified non-current Assets") was amounting to approximately RMB117,958,000, RMB515,737,000 and RMB68,651,000 respectively. These assets are allocated to the CGUs of the Group's manufacturing businesses.

The Group had reported significant decline in revenue in manufacturing during the year. Management considered this as an impairment indicator on the Specified non-current Assets and has performed an impairment assessment on these assets as at 31 December 2022 to determine their recoverable amount. Management has performed impairment tests with reference to a valuation performed by an independent and qualified professional valuer and the conclusion is based on the estimation of the recoverable amounts of the respective cash generating units ("CGUs") to which the respective Specified non-current Assets relate using the value-in-use ("VIU") and fair value less cost of disposal ("FVLCOD") calculation.

We identified this matter as a key audit matter because of the significance of the amounts involved and use of judgements and estimates in assessing the impairment of the assets. These key estimates include forecasted gross margins, forecasted overheads, forecasted growth rates and discount rates adopted in the VIU calculations based on discounted cash flow model.

Refer to Note 4 "Critical accounting estimates and judgments", Note 14 "Right-of-use assets", Note 15 "Property, plant and equipment", and Note 20 "Prepayments for property, plant and equipment" to the consolidated financial statements.

Our response:

Our audit procedures in relation to the management's CGUs assessment included:

– understanding and assessing the appropriateness of the valuation methodologies used by the management and key assumptions adopted for valuations based on our knowledge of the businesses and industries;

– assessing the objectivity, capability, and competence of the independent professional valuer by considering its qualifications, relevant experience and relationship with the Group;

– checking the accuracy and relevance of the input data used and the reasonableness of the key assumptions used in the valuations;

– involving an auditor's valuation expert to assist our work in assessing the valuation methodology adopted by the independent professional valuer and comparing the key estimates and assumptions adopted in the valuations;

– discussing with the independent professional valuer and challenging the reasonableness of key assumptions in the cash flow projections covering the projection period, growth rates and discount rate; and

– considering the adequacy of the Group's disclosure in respect of the impairment assessment.

Other information in the annual report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidation financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Lau Kin Tat, Terry
Practising Certificate no. P07676

Hong Kong, 30 March 2023

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	Year ended 31 December 2022 RMB'000	2021 RMB'000
Revenue	6	**534,701**	476,397
Cost of sales		**(451,326)**	(347,809)
Gross profit		**83,375**	128,588
Other income	6	**18,462**	4,810
Other gains – net	6	**18,709**	25,963
Selling expenses		**(20,612)**	(25,471)
Administrative and other operating expenses		**(56,020)**	(64,969)
Impairment loss on trade receivables, other receivables and deposits		**(5,062)**	(3,879)
Impairment loss on investment in a joint venture	13	**(212)**	(5,389)
Operating profit		**38,640**	59,653
Finance income	9	**631**	581
Finance costs	9	**(14,738)**	(18,686)
Finance costs – net	9	**(14,107)**	(18,105)
Share of results of a joint venture	13	**203**	(1,500)
Profit before income tax	7	**24,736**	40,048
Income tax expense	11	**(2,685)**	(4,818)
Profit for the year		**22,051**	35,230
Other comprehensive (expenses)/income			
Items that will not be reclassified to profit or loss:			
Currency translation differences		**(27,439)**	10,588
Other comprehensive (expenses)/income for the year, net of tax		**(27,439)**	10,588
Total comprehensive (expenses)/income for the year		**(5,388)**	45,818
Profit for the year attributable to:			
Owners of the Company		**22,321**	35,495
Non-controlling interests		**(270)**	(265)
		22,051	35,230
Total comprehensive (expenses)/income for the year attributable to:			
Owners of the Company		**(5,118)**	46,083
Non-controlling interests		**(270)**	(265)
		(5,388)	45,818
Earnings per share for profit attributable to owners of the Company			
– basic and diluted (RMB per share)	12	**0.05**	0.07

The notes on pages 94 to 199 are an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	As at 31 December 2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	**515,737**	278,944
Prepayments for property, plant and equipment	*20*	**117,958**	188,275
Right-of-use assets	*14*	**68,651**	49,362
Investment property	*16*	**12,100**	12,000
Intangible assets	*17*	**636**	183
Investment in a joint venture	*13*	**54,500**	54,500
Financial asset at fair value through profit or loss (“FVTPL”)	*21*	**2,000**	–
Financial asset at fair value through other comprehensive income (“FVOCI”)	*21*	**–**	–
Deferred tax assets	*33*	**1,856**	54
Trade and other receivables	*19*	**60**	83
		773,498	583,401
Current assets			
Inventories	*18*	**49,920**	56,863
Trade and other receivables	*19*	**243,617**	233,238
Financial asset at FVTPL	*21*	**–**	–
Income tax recoverable		**3,264**	1,724
Pledged bank deposits	*23*	**29,138**	34,271
Cash and bank balances	*22*	**50,786**	24,259
		376,725	350,355
Total assets		**1,150,223**	933,756
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*25*	**3,901**	3,901
Share premium	*25*	**150,143**	150,143
Other reserves	*27*	**(60,424)**	(37,216)
Retained earnings		**279,018**	260,928
		372,638	377,756
Non-controlling interests		**1,744**	2,014
Total equity		**374,382**	379,770

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	As at 31 December 2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	*32*	**403,170**	–
Convertible bonds	*31*	**79,084**	69,925
Lease liabilities	*14*	**7,616**	1,678
Deferred tax liabilities	*33*	**8,541**	8,310
Deferred government grants	*28*	**10,223**	352
		508,634	80,265
Current liabilities			
Trade and other payables	*29*	**103,752**	163,301
Contract liabilities	*6*	**14,816**	21,623
Bank and other borrowings	*32*	**104,890**	234,579
Note	*30*	**36,328**	49,876
Financial liabilities at FVTPL	*31*	**–**	–
Lease liabilities	*14*	**7,421**	4,342
		267,207	473,721
Total liabilities		**775,841**	553,986
Total equity and liabilities		**1,150,223**	933,756

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 89 to 199 were approved by the Board of Directors on 30 March 2023 and were signed on its behalf.

Yu Yuerong
Director

Wang Xiaobing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at 1 January 2021	3,901	150,143	(66,766)	229,972	317,250	9,526	326,776
Profit for the year	–	–	–	35,495	35,495	(265)	35,230
Currency translation differences	–	–	10,588	–	10,588	–	10,588
Total comprehensive income	–	–	10,588	35,495	46,083	(265)	45,818
Issuance of convertible bonds *(Note 31)*	–	–	7,176	–	7,176	–	7,176
Transaction with non-controlling interests *(Note 36)*	–	–	7,247	–	7,247	(7,247)	–
Transaction with owners							
Profit appropriation	–	–	4,539	(4,539)	–	–	–
Balance at 31 December 2021 and 1 January 2022	3,901	150,143	(37,216)	260,928	377,756	2,014	379,770
Profit for the year	–	–	–	22,321	22,321	(270)	22,051
Currency translation differences	–	–	(27,439)	–	(27,439)	–	(27,439)
Total comprehensive income	–	–	(27,439)	22,321	(5,118)	(270)	(5,388)
Transaction with owners							
Profit appropriation	–	–	4,231	(4,231)	–	–	–
Balance at 31 December 2022	3,901	150,143	(60,424)	279,018	372,638	1,744	374,382

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	Year ended 31 December 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	35	**47,660**	13,471
Income tax paid		**(5,796)**	(7,035)
Net cash generated from operating activities		**41,864**	6,436
Cash flows from investing activities			
Purchase of financial assets at FVTPL		**(1,000)**	–
Proceeds from disposal of financial assets at FVTPL		**–**	203
Purchase of property, plant and equipment		**(89,394)**	(9,284)
Proceeds from disposal of property, plant and equipment		**3**	29
Purchase of intangible assets		**(527)**	–
Release of pledged bank deposits		**5,133**	19,926
Interest received		**631**	581
Prepayment for property, plant and equipment		**(72,389)**	(121,615)
Net cash used in investing activities		**(157,543)**	(110,160)
Cash flows from financing activities			
Net proceeds from issuance of convertible bonds		**–**	76,328
Repayment of convertible bonds		**(4,684)**	–
Repayments of principal portion of the lease liabilities		**(15,546)**	(5,942)
Repayments of note		**(20,690)**	(40,363)
Proceeds from bank and other borrowings		**638,148**	363,931
Repayments of bank and other borrowings		**(370,641)**	(284,303)
Interest paid		**(17,500)**	(7,433)
Proceeds from notes payable		**78,581**	180,011
Repayments of notes payable		**(145,651)**	(213,616)
Net cash generated from financing activities		**142,017**	68,613
Net increase/(decrease) in cash and cash equivalents		**26,338**	(35,111)
Cash and cash equivalents at beginning of the year	22	**24,259**	53,708
Currency translation differences		**189**	5,662
Cash and cash equivalents at end of the year	22	**50,786**	24,259

The notes on pages 94 to 199 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

China Ludao Technology Company Limited (the "Company") was incorporated in the Cayman Islands on 25 May 2012 as an exempted company with limited liability. The address of the Company's registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of aerosol products for household and auto care, air fresheners, personal care products and insecticides and wholesales of personal care products. Ludao China Investments Holdings Limited ("Ludao Investments"), which is wholly owned by Mr. Yu Yuerong ("Controlling Shareholder"), has 49.14% interest in the Company as at 31 December 2022.

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2023.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investment property and certain financial instruments, which are measured at fair value as explained in the accounting policies set out below.

2.3 Adoption of HKFRSs

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The accounting policies and method of computation used in the preparation of the consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended 31 December 2021 except for the changes mentioned below.

(a) Adoption of new/revised HKFRSs – effective 1 January 2022

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

- 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

(a) *Adoption of new/revised HKFRSs – effective 1 January 2022* *(Continued)*

Other than the amendments to HKFRS 16, none of these amended HKFRSs have any impact on the Group's results and financial position for the current or prior periods. Impact on the applications of the amended HKFRS is summarised below.

Amendments to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021

In April 2021, the HKICPA issued an amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021, which extended the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic and applied to rent concessions for which any reductions in lease payments that were originally due on or before 30 June 2022. This amendment is effective for annual periods beginning on or after 1 April 2021 with earlier application permitted. The amendment is to be applied mandatorily by those entitled that have elected to apply the previous amendment Covid-19-Related Rent Concessions, such as the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1	HK Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants)[2]
Amendments to HKAS 1	Presentation of Financial Statements (Classification of Liabilities as Current or Non-current)[2]
Amendments to HKAS 1	Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)[2]
Amendment to HKFRS 16	Leases (Liability in a Sale and Leaseback)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024

Amendments to HKFRS 16 Lease Liability in a Sale and Leaseback

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements of HKFRS 15 to be accounted for as a sale. The amendments require a seller-lessee to determine "lease payments" or "revised lease payments" such that the seller-lessee would not recognise a gain or loss that relates to the right of use retained by the seller-lessee. The amendments also clarify that applying the requirements does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to subsequent partial or full termination of a lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

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

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

Amendments to HKAS 1 and HKFRS Practice Statement 2

Amendments to HKAS 1 Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary.

Amendments to HKAS 8

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Adoption of HKFRSs *(Continued)*

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

Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in Note 2.18 to the consolidated financial statements, for transactions in which provisions for decommissioning and restoration are recognised with the corresponding amounts recognised as part of the cost of the related assets, the Group applies HKAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

In addition, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the provisions for decommissioning and restoration and the corresponding amounts recognised as part of the cost of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation

2.4.1 Business combination and basis of consolidation

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

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

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

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

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

2.4.2 Subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.2 Subsidiaries (Continued)

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

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

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

2.4.3 Joint arrangements

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.3 Joint arrangements (Continued)

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances (including any other contractual arrangements).

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

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations. In accordance with HKFRS 11 Joint Arrangements, the Group is required to apply all of the principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined by HKFRS 3.

2.4.4 Goodwill

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Consolidation *(Continued)*

2.4.4 Goodwill *(Continued)*

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

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

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

2.5 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors of the Group, being the chief operating decision maker ("CODM") for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components reported to the CODM are determined based on the Group's major products and service lines stated in Note 5.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary financial assets are treated as a separate component of the change in fair value and recognised in profit or loss. Exchange gains and losses on non-monetary OCI financial assets form part of the overall gain or loss in OCI recognised in respect of that financial instrument.

On consolidation, the results of overseas operations are translated into RMB at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the exchange reserve.

Exchange differences recognised in profit or loss in group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of profit or loss as part of the profit or loss on disposal.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and stated at cost less impairment losses. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Plant and machinery	10-15 years
Office furniture and equipment	3-10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net' in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

2.9 Intangible assets (other than goodwill)

(i) Intangible assets acquired separately

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

The amortisation expense is recognised in profit or loss. The useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period. Amortisation is provided on a straight-line basis over their useful lives as follows:

Computer software	10 years
Patents	5 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Intangible assets (other than goodwill) *(Continued)*

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Subsequent expenditure

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Intangible assets (other than goodwill) *(Continued)*

(iv) Derecognition of intangible assets

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

(v) Impairment of intangible assets

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 2.10).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

2.10 Impairment of non-financial assets

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

- property, plant and equipment and prepayments for property, plant and equipment;
- right-of-use assets;
- intangible assets (other than goodwill);
- investment in a joint venture; and
- investments in subsidiaries in the Company's statement of financial position

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Impairment of non-financial assets *(Continued)*

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

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

VIU is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see note 2.4.4), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

2.11 Financial instruments

2.11.1 Financial assets

Financial assets is recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset (unless it is a trade receivable without a significant financing component) at its fair value plus or minus, in the case of a financial asset not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.1 Financial assets (Continued)

When the fair value of financial assets differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(i) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(ii) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.1 Financial assets *(Continued)*

Debt instruments (Continued)

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.1 Financial assets *(Continued)*

Financial guarantee contracts

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.2 Impairment loss on financial assets

The Group recognises loss allowances for ECLs on trade receivables, other receivable and deposits, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group measured loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.2 Impairment loss on financial assets *(Continued)*

The Group rebutted the presumption of a financial asset has increased credit risk significantly if it is more than 30 days past due based on the customers' past payment history and current ability of making payments. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 1 year past due.

The Group rebutted the presumption of default under ECL model for a financial asset over 90 days past due based on the customers' past payment history and continuous business with the Group.

The Group considers a financial asset to be credit-impaired when: (1) significant financial difficulty of the debtor; (2) a breach of contract, such as a default; (3) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; (4) it is probable that the debtor will enter bankruptcy or other financial reorganisation; or (5) the disappearance of an active market for that financial asset because of financial difficulties.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.3 Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank and other borrowings, lease liabilities, note and debt element of convertible bonds are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.11.4 Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the convertible bonds into equity, is included in equity (convertible bonds reserve).

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.4 Convertible bonds (Continued)

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Convertible bonds with conversion options which are not settled by exchanging a fixed amount of cash for a fixed number of the Company's own shares comprise a derivative component and a liability component.

At initial recognition the derivative component of the convertible notes is measured at fair value. Any excess of the proceeds which represents the fair value of the convertible bonds as a whole over the amount initially recognised as the derivative component which represents the fair value of conversion option is recognised as the liability component. Transaction costs relating to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability component. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value, with changes in fair value recognised immediately in profit or loss. The liability component is subsequently measured at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The liability component is classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

2.11.5 Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial instruments *(Continued)*

2.11.6 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

2.11.7 Equity instruments

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

2.11.8 Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

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

2.12 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits and highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

2.15 Borrowings

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

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

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

2.16 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are recognised as other revenue, rather than reducing the related expense.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

2.18 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Income taxes *(Continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, provided that the deductible temporary differences are not arises from initial recognition of assets and liabilities in a transaction other than in a business combination that affects neither taxable profit nor the accounting profit. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

2.20 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

(i) Sales of goods

Customers obtain control of the goods when the goods are delivered to and accepted by customers according to the contract terms. Revenue is thus recognised at the point in time when the customers accepted the goods. There is generally only one performance obligation in a contract. Invoices are usually payable on demand and up to 0-360 days (2021: 0-360 days). There are no right of return and the provision of rebates is not common.

(ii) Technical services income

Technical services include provision of consultation services, feasibility analysis and the application of technique. Revenue from provision of consultation services is recognised over time based on contractual terms specified in the underlying agreements, as the customer simultaneously receives and consumes the benefits providing by the Group's performance as the Group performs and the revenue can be measured reliably. Revenue from provision of feasibility analysis and the application of technique is recognised at a point in time when the promised services is satisfied. The considerations generally include no variable amount. Invoices are usually payable on demand or up to 0-180 days.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition *(Continued)*

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

2.21 Leases

The Group as a lessee

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Leases *(Continued)*

Right-of-use asset

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

Except for right-of-use asset that meets the definition of an investment property, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value.

The right-of use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets, as follows:

Land use rights	50 years
Office premises, plant and machinery and director's quarter	2 to 5 years

Lease liability

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Leases *(Continued)*

Lease liability *(Continued)*

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

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

The Group as a lessor

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

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

Any changes in the scope of the consideration for a lease that was not part of the original terms and conditions of the lease are accounted for as lease modifications. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, recognising the remaining lease payments as income on a either a straight-line basis or another systematic basis over the remaining lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Related parties *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by designated directors under policies approved by the board of directors. These directors identify, evaluate and hedge financial risks in close cooperation within the Group's operating units.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. The Group is subject to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than RMB. The Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies and the remittance of funds are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk (Continued)

Major foreign currencies of Group are HKD and United States dollars ("USD"). The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Assets		
HKD and USD	**96,418**	88,471
Liabilities		
HKD and USD	**116,008**	220,829

The following table shows the sensitivity analysis on profit before tax of a 5% increase in RMB against HKD and USD. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for the respective changes in rate.

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
5% appreciation in exchange rate against HKD and USD		
Increase in the profit for the year	**980**	6,618

(b) Price risk

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk

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

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

In respect of trade and other receivables, the evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Trade receivables are due between 0 to 360 days (2021: 0 to 360 days) from the date of billing.

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

As at 31 December 2022, the Group had certain concentration of credit risk as 20% (2021: 68%) of the total trade receivables were due from the Group's five largest customers. For the year ended 31 December 2022, the five largest customers were established customers of the Group which were located in Chile and Mainland China (2021: Chile, the United States of America and Mainland China), and have good repayment history with reference to the track records of these customers under internal assessment by the Group. The Group seeks to minimise its risk by dealing with counterparties which have good credit history.

The Group measures loss allowances for trade receivable at an amount equal to lifetime ECLs, which is calculated using two provision matrice. In the view of different customer groups, loss rates are calculated separately for exposures in different customers. The Group has disaggregated the customers into domestic entities and oversea entities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2022 and 2021:

Trade receivables:

As at 31 December 2022

Domestic entities	**Expected loss rate *(%)***	**Gross carrying amount *(RMB'000)***	**Loss allowance *(RMB'000)***
Current (not past due)	**3.63**	**46,628**	**1,692**
1-30 days past due	**3.63**	**1,466**	**53**
31-90 days past due	**3.63**	**922**	**33**
91-365 days past due	**29.72**	**3,156**	**938**
1 year past due	**37.30**	**3,386**	**1,263**
2-3 years past due	**64.00**	**50**	**32**
3 years past due	**100.00**	**1,955**	**1,955**
		57,563	**5,966**

As at 31 December 2021

Domestic entities	Expected loss rate *(%)*	Gross carrying amount *(RMB'000)*	Loss allowance *(RMB'000)*
Current (not past due)	3.81	33,919	1,291
1-30 days past due	3.81	88	3
31-90 days past due	3.81	24	1
91-365 days past due	32.66	783	256
1 year past due	38.63	118	46
2-3 years past due	55.68	875	487
3 years past due	100.00	1,315	1,315
		37,122	3,399

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Credit risk *(Continued)*

As at 31 December 2022

Oversea entities	Expected loss rate (%)	Gross carrying amount (RMB'000)	Loss allowance (RMB'000)
Current (not past due)	**0.39**	**55,118**	**214**
1-30 days past due	**0.39**	**306**	**1**
31-90 days past due	**0.39**	**3,268**	**14**
91-365 days past due	**27.44**	**14,470**	**3,970**
1 year past due	**N/A**	**–**	**–**
2-3 years past due	**85.71**	**56**	**48**
3 years past due	**100.00**	**388**	**388**
		73,606	**4,635**

As at 31 December 2021

Oversea entities	Expected loss rate (%)	Gross carrying amount (RMB'000)	Loss allowance (RMB'000)
Current (not past due)	0.35	57,075	200
1-30 days past due	0.35	6,024	21
31-90 days past due	0.35	88	–*
91-365 days past due	39.79	147	58
1 year past due	72.00	51	37
2-3 years past due	84.25	44	36
3 years past due	100.00	449	499
		63,878	801

* Represents the amount less than RMB1,000

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Credit risk* *(Continued)*

ECLs are recognised in three stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). The Group considers that there is information that the financial assets had a significant increase in credit risk since initial recognition.

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The following table provides information about the Group's loss allowance to credit risk and ECLs for other receivables and deposits as at 31 December 2022 and 2021:

Other receivables and deposits:

	RMB'000
Balance as at 31 December 2022	
Other receivables	1,824
Deposits	83
Balance as at 31 December 2021	
Other receivables	2,982
Deposits	70

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

The Group has adequate cash and cash equivalents to finance its operating activities. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and through having available sources of financing.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2022						
Trade and other payables (excluding other taxes payable)	101,155	101,155	101,155	–	–	–
Bank and other borrowings	508,060	520,680	106,582	165,458	101,704	146,936
Note	36,328	38,349	38,349	–	–	–
Convertible bonds	79,084	93,126	4,892	88,234	–	–
Lease liabilities	15,037	16,353	8,312	6,558	1,483	–
	739,664	769,663	259,290	260,250	103,187	146,936
As at 31 December 2021						
Trade and other payables (excluding other taxes payable)	161,273	161,273	161,273	–	–	–
Bank and other borrowings	234,579	238,159	238,159	–	–	–
Note	49,876	51,264	51,264	–	–	–
Convertible bonds	69,925	89,716	4,478	85,238	–	–
Lease liabilities	6,020	6,402	4,622	1,359	421	–
	521,673	546,814	459,796	86,597	421	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(e) *Cash flow and fair value interest rate risk*

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits (Note 23), fixed-rate bank borrowings (Note 32), lease liabilities (Note 14), note (Note 30) and liability component of convertible bonds (Note 31). The Group's exposures to cash flow interest rate risk are mainly attributable to its bank deposits and bank borrowings at variable interest rates. Bank deposits at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group does not hedge its fair value interest rate risk as management believes that the fair value interest rate risk does not have material impact on the Group given the discounting impact as a result of a shift of the fixed interest rate on the borrowings is not material.

As at 31 December 2022 and 2021, the Directors of the Company expected reasonably possible changes in interest rates have no material impact on the interest income of pledged bank deposits, short-term bank deposits and cash and cash equivalents and interest expense of bank and other borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances and variable-rate bank borrowings at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of each period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/(increase) by RMB1,292,000 (2021: RMB938,000).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

The gearing were as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Bank and other borrowings	**508,060**	234,579
Notes payable	**17,173**	84,243
Note	**36,328**	49,876
Convertible bonds	**79,084**	69,925
Total borrowings	**640,645**	438,623
Total equity	**374,382**	379,770
Gearing ratio	**171%**	115%

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The carrying amounts of the Group's current financial assets and liabilities approximate to their fair values as the impact of discounting is not significant.

The Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Disclosures of level in fair value hierarchy at 31 December 2022	*Note*	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial asset at FVOCI					
Unlisted equity securities	*21*	–	–	–	–
Financial asset at FVTPL					
Profit guarantee	*21*	–	–	–	–
Equity investment	*21*	–	–	2,000	2,000
		–	–	2,000	2,000
Total financial assets		–	–	2,000	2,000

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Disclosures of level in fair value hierarchy at 31 December 2021	Note	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Financial asset at FVOCI					
Unlisted equity securities	*21*	–	–	–	–
Financial asset at FVTPL					
Profit guarantee	*21*	–	–	–	–
Unlisted fund investment	*21*	–	–	–	–
		–	–	–	–
Total financial assets		–	–	–	–

During the year ended 31 December 2022 and 2021, there were no transfers between levels of the fair value hierarchy.

The following table presents the changes in level 3 items for the years ended 31 December 2022 and 2021:

	Financial assets at FVOCI	Financial assets at FVTPL		
	Unlisted equity securities *RMB'000*	Profit guarantee *RMB'000*	Unlisted fund investment *RMB'000*	Equity investment
At 1 January 2021	–	–	208	–
Changes recognised in other gains in profit or loss	–	–	(5)	–
Disposals	–	–	(203)	–
At 31 December 2021 and 1 January 2022	–	–	–	–
Addition	–	–	–	1,000
Change in fair value	–	–	–	1,000
At 31 December 2022	–	–	–	2,000

See Note 16 for disclosures of the investment property that is measured at fair value.

Fair values of financial asset at FVOCI and FVTPL have been measured as described in Note 21.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Provision for ECLs of trade receivables, other receivables and deposits

The provision for ECLs is based on the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency. As at 31 December 2022, the provision for impairment on trade receivables, other receivables and deposits are RMB10,601,000 (2021: RMB4,200,000), RMB1,824,000 (2021: RMB2,982,000) and RMB83,000 (2021: RMB70,000) respectively. The Group makes allowances on trade receivables, other receivables and deposits based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the ECLs calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(b) Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate the expected sales based on orders on hand and ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. Judgment is required in estimating the expected sales and thus the provision required. If conditions which have impact on the net realisable value of inventories deteriorate, additional provision may be required.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets.

(d) Fair value of investment property

Judgment and assumptions are required in assessing the fair value of the investment property. Details of the judgment and assumptions are disclosed in Note 16.

(e) No equity accounting applied for the investment in Ever Clever (as defined in note 21) in which the Group holds 25% equity interest

No significant influence in Ever Clever

In preparing the consolidated financial statements, significant judgment has been applied by the management in the determination of the investment of 25% equity interest in Ever Clever under Hong Kong Accounting Standard 28 (2011) "Investments in Associates and Joint Ventures" ("HKAS 28"). Management has assessed the definition of an associate under HKAS 28 and given that the Group which owns 25% of equity interest does not entitle to request for a meeting to elect directors of Ever Clever in accordance with the memorandum and articles of association of Ever Clever, there is no representation of the Group on the board of directors or equivalent governing body of Ever Clever and the Group has not participated in policy-making processes, including participation in decisions about dividends or other distributions, management has concluded that the investment of 25% equity interest in Ever Clever does not fall within the definition of an associate under HKAS 28. Management made an irrevocable election to designate this investment at FVOCI, it is subsequently measured at fair value and change in fair value is recognised in other comprehensive income.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(f) Fair value measurement

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

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

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

The Group measures a number of items at fair value:

- Investment property (Note 16);
- Financial assets at FVOCI and FVTPL (Note 21); and
- Financial liabilities at FVTPL (Note 31)

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

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

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

The Group selects appropriate valuation techniques for FVLCOD of the Group's investment in the Illustrious Group for reporting purposes. The Director determines the appropriate valuation techniques and inputs for fair value measurements. In estimating the FVLCOD of the Group's investment in Illustrious Group, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent third party qualified valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the FVLCOD of the Group's investment in the Illustrious Group. Note 13 provides detailed information about the valuation techniques and inputs used in the determination of the FVLCOD of the Group's investment in the Illustrious Group.

As at 31 December 2022, the carrying amount of the Group's investment in the Illustrious Group was approximately RMB54,500,000. Impairment losses of approximately RMB212,000 has been recognised in consolidated profit or loss during the year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(h) Impairment of non-financial assets

The Group assesses at the end of each financial year whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the VIU and FVLCOD of the asset and CGU to which the asset is allocated. Preparing the VIU and FVLCOD calculations require management to exercise significant judgement and make critical accounting estimates, particularly in relation to the determination of valuation techniques and the selection of inputs like projected cash flows during projection period, growth rates beyond the projection period and discount rates to discount the projected cash flows and cash flows beyond the projection period.

5 SEGMENT INFORMATION

The executive directors of the Company ("EDs") are chief operating decision-makers. EDs review the Group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on the internal reports that are used by the EDs 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. The Group sells its products on contract manufacturing service basis mainly to overseas markets and on original brand manufacturing basis in the PRC market. All products are manufactured under the same production lines and distributed through distributors' network. 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 concluded that there is only one reportable and operating segment.

5 SEGMENT INFORMATION *(Continued)*

Geographical information

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

Revenue from external customers

	2022 *RMB'000*	2021 *RMB'000*
Mainland China	**391,910**	194,952
United States of America	**54,915**	88,083
Japan	**11,157**	7,295
Chile	**60,841**	176,281
Others	**15,878**	9,786
	534,701	476,397

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

The amounts provided to the EDs with respect to total assets are measured in a manner consistent with that of consolidated financial statements.

The right-of-use assets, property, plant and equipment, prepayment for property, plant and equipment, intangible assets, investment property and investment in joint venture which are classified as non-current assets as at 31 December 2022 and 2021 are mainly located in the PRC.

5 SEGMENT INFORMATION *(Continued)*

Information about major customers

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

	2022	2021
	RMB'000	*RMB'000*
Customer A	**99,641**	n/a
Customer B	**49,151**	175,009
Customer C	**37,257**	n/a
Customer D	**27,574**	n/a
Customer E	**n/a**	24,818
Customer F	**n/a**	67,916
Customer G	**n/a**	23,707

n/a Revenue from the customer was less than 5% of the Group's revenue for the year ended 31 December 2022 or 2021.

6 REVENUE, OTHER INCOME AND OTHER GAINS – NET

	2022 RMB'000	2021 RMB'000
Revenue		
Sales of goods	**534,701**	476,397
Other income		
Government grants *(Note)*	**17,454**	1,247
Technical service fee	**4**	2,642
Rental income	**272**	364
Rent concession *(Note 14)*	**310**	–
Others	**422**	557
	18,462	4,810
Other gains – net		
Foreign exchange gain/(loss) *(Note 10)*	**16,221**	(8,370)
Gain on early termination of lease *(Note 14)*	**–**	62
Gain on lease modification *(Note 14)*	**24**	–
Fair value gain on investment property *(Note 16)*	**100**	100
Change in fair value of financial asset at FVTPL *(Note 21)*	**1,000**	(5)
Net gain/(loss) on non-substantial modifications of note *(Note 30)*	**1,364**	(154)
Gain on cancellation of convertible bonds *(Note 31(a))*	**–**	34,329
Others	**–**	1
	18,709	25,963

Note: The Group received government grants in relation to the support of the Group's operations and the research and development cost in the PRC. There were no unfulfilled conditions in relation to the grants.

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

Revenue and other income from contracts with customers – disaggregated revenue information:

	2022 *RMB'000*	2021 *RMB'000*
Revenue and other income under HKFRS 15		
Type of goods and services		
Sales of goods on contract manufacturing service ("CMS") basis *(Note i)*	**269,606**	430,243
Sales of goods on original brand manufacturing ("OBM") basis *(Note ii)*	**70,095**	46,154
Wholesales	**195,000**	–
Technical service	**4**	2,642
	534,705	479,039
Timing of revenue recognition		
Recognised on point in time basis		
– Sales of goods	**534,701**	476,397
Recognised on over time basis		
– Technical service fee	**4**	2,642
	534,705	479,039

Notes:

(i) The sales of CMS products relate to products which were manufactured by the Group and sold under the customers' brand names.

(ii) The sales of OBM products relate to products which were designed, developed and manufactured by the Group and sold under the Group's own or licensed brand names.

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

	As at 31 December 2022 *RMB'000*	As at 31 December 2021 *RMB'000*
Contract liabilities	**14,816**	21,623

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

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

Movements in contract liabilities during the year ended 31 December 2022 and 2021:

	RMB'000
Balance at 1 January 2021	26,506
Revenue recognised in the year that was included in the contract liabilities balance at the beginning of year	(24,964)
Reclassification of opening contract liabilities to other payables due to cancellation of sales order during the year	(1,542)
Increase due to cash received, excluding amount recognised as revenue during the year	21,623
Balance at 31 December 2021 and 1 January 2022	21,623
Revenue recognised in the year that was included in the contract liabilities balance at the beginning of year	(21,465)
Reclassification of opening contract liabilities to other payables due to cancellation of sales order during the year	(158)
Increase due to cash received, excluding amount recognised as revenue during the year	14,816
Balance at 31 December 2022	14,816

The Group's contracts usually have duration of one year or less from date of contract inception to date of satisfaction of performance obligation. The Group has applied the practical expedient and therefore does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less.

The Group has taken advantage of the practical expedient to not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less.

7 PROFIT BEFORE INCOME TAX

Profit before income tax expense is arrived at after charging/(crediting):

	2022 *RMB'000*	2021 *RMB'000*
Depreciation and amortisation *(Notes 14,15,17)*	**16,577**	17,707
Employee benefit expenses, excluding amount included in research and development costs	**31,736**	42,760
Research and development costs *(Note)*		
– Employee benefit expenses	**7,497**	10,443
– Materials and others, excluding depreciation and amortisation	**11,259**	9,475
Auditor's remuneration		
– Audit services	**1,240**	1,240
Rent concession *(Note 14)*	**(310)**	–
Short-term lease expense *(Note 14)*	**1,455**	292
Low value lease expense *(Note 14)*	**96**	155
Variable lease payments not included in the measurement of lease liabilities *(Note 14)*	**443**	131
Gain on fair value of investment property *(Note 6)*	**(100)**	(100)
Change in fair value of financial asset at FVTPL *(Note 6)*	**(1,000)**	5
Inventories written off	**–**	169
Written-off of property, plant and equipment *(Note 15)*	**11**	–
Loss on disposal of property, plant and equipment	**7**	136

Note: Research and development costs are included in administrative and other operating expenses in the consolidated statement of comprehensive income.

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2022 *RMB'000*	2021 *RMB'000*
Wages, allowances and bonus	**33,912**	46,777
Retirement scheme contribution	**3,754**	5,692
Others	**1,567**	734
	39,233	53,203

(a) Pensions – defined contribution plans

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees in the PRC arranged by local government labour and security authorities ("PRC Retirement Schemes"). The Group makes contributions to the PRC Retirement Schemes based on 22.5% (2021: 22.5%) of the basic salary of eligible staff during the year ended 31 December 2022. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees.

The Group participates in defined contribution schemes which are registered under the Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) ("MPFSO") for the benefits of its employees in Hong Kong. The assets of the schemes are held, separately from those of the Group, in funds under the control of independent trustees. In accordance with the statutory limits prescribed by the MPFSO, for each employee under the MPF Scheme, the Group Contributes 5% (2021: 5%) of the relevant income to the MPF Scheme, subject to a cap of monthly contribution at HK$1,500 per employee (2021: HK$1,500), which contribution is matched by the employee. Contributions to the MPF Scheme for the Group's employees are fully and immediately vested in the employees once the contributions are made.

There were no contributions forfeited by the Group on behalf of its employees who leave the MPF Scheme or the PRC Retirement Schemes (as the case may be).

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2021: one) directors whose emoluments are reflected in the analysis in Note 40. The emoluments paid to the remaining three individuals (2021: four) during the year are as follows:

	2022 *RMB'000*	2021 *RMB'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,432**	2,184
Retirement scheme contribution	**58**	42
	1,490	2,226

	Number of individuals 2022	 2021
Emoluments bands		
Nil to HKD1,000,000	**3**	4

9 FINANCE COSTS – NET

	2022 *RMB'000*	2021 *RMB'000*
Interest income	**631**	581
Foreign exchange loss *(Note 10)*	**(1,080)**	(1,207)
Interest expense		
– Bank and other borrowings	**(16,299)**	(7,297)
– Interest on lease liabilities *(Note 14)*	**(1,047)**	(582)
– Note instrument	**(4,664)**	(7,922)
– Convertible bonds *(Note 31)*	**(7,257)**	(1,678)
– Amount capitalised in construction-in-progress	**15,609**	–
	(14,738)	(18,686)
Finance costs – net	**(14,107)**	(18,105)

Finance cost capitalised in construction in progress relate to finance costs incurred during the year on borrowing which provided funds generally and specifically for the purpose of obtaining the qualifying asset.

10 TOTAL FOREIGN EXCHANGE

	2022 *RMB'000*	2021 *RMB'000*
Included in:		
– Net finance expense *(Note 9)*	**(1,080)**	(1,207)
– Other gains – net *(Note 6)*	**16,221**	(8,370)
Total	**15,141**	(9,577)

Foreign exchange gains and losses relating to borrowings and cash and cash equivalents are included in finance income or finance costs in the consolidated statement of comprehensive income. All other foreign exchange gains and losses are included in other gains – net in the consolidated statement of comprehensive income.

11 INCOME TAX EXPENSE

	2022 *RMB'000*	2021 *RMB'000*
Current income tax:		
PRC corporate income tax	**4,256**	4,821
Deferred income tax *(Note 33)*:		
PRC corporate income tax	**(1,601)**	(33)
PRC land appreciation tax ("LAT")	**30**	30
	(1,571)	(3)
	2,685	4,818

The Group was not subject to any income tax in the Cayman Islands.

No provision for profits tax in Hong Kong has been made as the Group has no assessable income in Hong Kong during the year (2021: Nil).

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), companies established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable. Zhejiang Ludao Technology Co., Ltd ("Ludao PRC") was accredited as a High and New Technology Enterprise enabling it to enjoy a preferential rate of 15% for the three years from 24 December 2022 to 23 December 2025.

11 INCOME TAX EXPENSE *(Continued)*

For the year ended 31 December 2022 and 2021, the Group was entitled to claim an extra 100% in addition to the actual research and development expenses incurred as an incentive ("Super Deduction").

The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the year ended 31 December 2022 and 2021.

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

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Group as follows:

	2022	2021
	RMB'000	*RMB'000*
Profit before income tax	**24,736**	40,048
Add: share of results of a joint venture *(note 13)*	**(203)**	1,500
	24,533	41,548
Tax calculated at the tax rate of 15% (2021: 15%)	**3,680**	6,232
Effect of different tax rates of other subsidiaries	**(2,111)**	(1,873)
Additional deductions for research and development expenses	**(2,800)**	(3,086)
LAT deductible for calculation of income tax purpose	**(5)**	(5)
Effects of income not taxable and expenses not deductible for tax purposes and others	**3,921**	3,550
	2,685	4,818

11 INCOME TAX EXPENSE *(Continued)*

Pursuant to the CIT Law, a 10% withholding tax will be levied on the dividends declared by companies established in the PRC from profits generated after 1 January 2008 to their foreign investors. As at 31 December 2022, the Group did not recognise deferred tax liabilities on profits of RMB411,103,000 (2021: RMB373,021,000) generated from Ludao PRC after 1 January 2008 as no dividends would be declared by Ludao PRC out of those profits in the foreseeable future considering the cash flow requirements of the Group.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Profit attributable to owners of the Company *(RMB'000)*	**22,321**	35,495
Weighted average number of ordinary shares in issue	**491,800,000**	491,800,000
Basic and diluted earnings per share *(RMB per share)*	**0.05**	0.07

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the year ended 31 December 2022 and 2021, diluted earnings per share is the same as basic earnings per share. There is no dilutive effect of the outstanding convertible bonds for the years ended 31 December 2022 and 2021, as they are anti-dilutive.

13 INVESTMENT IN A JOINT VENTURE

	2022 *RMB'000*	2021 *RMB'000*
As at 1 January	**54,500**	61,278
Share of results	**203**	(1,500)
Impairment loss on investment in a joint venture	**(212)**	(5,389)
Exchange adjustment	**9**	111
As at 31 December	**54,500**	54,500

As at 31 December 2022, the Group had interest in the following joint venture which is accounted for using equity method in the consolidated financial statements, as follows:

Name	Form of business structure	Place of incorporation/ establishment	Issued share capital	Equity interest held		Principal activities and place of operation
				2022	2021	
Illustrious Success Limited ("Illustrious Success") *(Note)*	Limited liability company	The British Virgin Islands ("BVI")	5,000 ordinary shares of USD5,000	**50%**	50%	Investment holding, BVI

Note:

During the year ended 31 December 2017, the Group acquired 50% equity interest in Illustrious Success for a consideration of RMB52,000,000.

Illustrious Success is a company incorporated in BVI with limited liability and is engaged in investment holding. Its significant subsidiary, 朝陽廣華新能源技術有限公司 (Chaoyang Guanghua New Energy and Technology Limited*), is mainly engaged in supplying heat generated from thermal energy and sewage water in the PRC.

The proportion of ownership interest in Illustrious Success is the same as the proportion of voting rights held.

* The English name is for identification purpose only

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

Summarised financial information for Illustrious Success:

	2022 *RMB'000*	2021 *RMB'000*
Current assets		
Cash and cash equivalents	**252**	729
Trade and other receivables	**24,227**	23,285
Total current assets	**24,479**	24,014
Non-current assets		
Payments for land use rights	**1,541**	1,585
Property, plant and equipment	**15,074**	17,955
Intangible asset (a)	**40,655**	42,506
Total non-current assets	**57,270**	62,046
Current liabilities		
Trade and other payables	**13,470**	16,797
Current income tax liabilities	**1,246**	2,297
Total current liabilities	**14,716**	19,094
Non-current liability		
Deferred income tax liabilities	**9,752**	10,212
Total non-current liability	**9,752**	10,212
Reconciliation to the Group's interest in the joint venture:		
Net assets	**57,281**	56,754
Less: Non-controlling interests	**(13,443)**	(13,322)
Net assets attributable to owners of the joint venture	**43,838**	43,432

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

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

	2022 *RMB'000*	2021 *RMB'000*
Revenue	**17,210**	17,142
Depreciation and amortisation	**(4,775)**	(4,770)
Other operating expenses	**(12,317)**	(16,145)
Interest income	**1**	2
Income tax credit	**411**	317
Profit/(loss) from operations	**530**	(3,454)
Other comprehensive income	**(3)**	(62)
Total comprehensive income/(expenses)	**527**	(3,516)

Reconciliation of summarised financial information

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

	2022 *RMB'000*	2021 *RMB'000*
Net assets attributable to owners of Illustrious Success	**43,838**	43,432
Group's share in %	**50%**	50%
Group's share	**21,919**	21,716
Goodwill	**37,097**	37,097
Exchange adjustment	**1,085**	1,076
Impairment loss recognised	**(5,601)**	(5,389)
Carrying amount	**54,500**	54,500

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

Reconciliation of summarised financial information *(Continued)*

As at 31 December 2022 and 2021, the management of the Group carried out an impairment review on the carrying amount of its investment in joint venture by comparing the recoverable amount with the carrying amount of the investment in Illustrious Group. An impairment is recognised when the carrying amount of the investment in Illustrious Group exceeds its recoverable amount, which in turn is the higher of its value in use and its FVLCOD.

In determining the value in use of the investment in Illustrious Group, the Group estimated the present value of the estimated future cash flows expected to be generated by the joint venture, including cash flows from the operations of the joint venture and estimated terminal value, calculated at a discount rate of 12.5% (2021: 12.5%).

The FVLCOD of the investment in Illustrious Group was determined by the adoption of market approach which was based on price multiple determined with reference to comparable public companies and includes appropriate risk adjustments including discount for lack of marketability.

Below is a summary of significant unobservable inputs to the valuation of FVLCOD of the investment in Illustrious Success together with a quantitative sensitivity analysis as at 31 December 2022:

Valuation technique	Significant unobservable inputs	Amount	Relationship of unobservable inputs to fair value	Sensitivity
Market approach	*EV/S ratio	9.10x	The higher EV/S ratio, the higher the fair value less costs of disposal.	5% increase/decrease in EV/S ratio would result in increase/decrease in fair value less costs of disposal by RMB2,597,000
	Discount for lack of marketability ("DLOM")	15.8%	The higher DLOM, the lower the fair value less costs of disposal.	5% increase/decrease in DLOM would result in decrease/increase in fair value less costs of disposal by RMB512,000

* EV/S ratio stands for Enterprise Value to Sales Ratio

13 INVESTMENT IN A JOINT VENTURE *(Continued)*

Reconciliation of summarised financial information *(Continued)*

The valuation of the recoverable amount based on FVLCOD of the investment in Illustrious Group as at 31 December 2022 was carried out by APAC Asset Valuation and Consulting Limited, an independent and qualified valuer not connected to the Group.

In view of the low profitability of Illustrious Group, based on the impairment assessment as at 31 December 2022, the recoverable amount of the investment in a joint venture was lower than its carrying amount. Impairment loss on the investment in a joint venture of approximately RMB212,000 has been recognised in profit or loss in the consolidated statement of comprehensive income for the year ended 31 December 2022 to reduce the carrying amount of the investment in a joint venture to its recoverable amount of approximately RMB54,500,000.

As at 31 December 2021, the recoverable amount of the investment in a joint venture was lower than its carrying amount. Impairment loss on the investment in a joint venture of approximately RMB5,389,000 has been recognised in profit or loss in the consolidated statement of comprehensive income for the year ended 31 December 2021 to reduce the carrying amount of the investment in a joint venture to its recoverable amount of approximately RMB54,500,000.

14 LEASES

The Group as a lessee

(a) Right-of-use assets

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

	Land use rights *RMB'000*	Office premises, plant and machinery and director's quarter *RMB'000*	Total *RMB'000*
At 1 January 2021	43,148	8,574	51,722
Additions	–	4,929	4,929
Early termination of lease	–	(880)	(880)
Depreciation *(Note 7)*	(920)	(5,467)	(6,387)
Foreign exchange movements	–	(22)	(22)
At 31 December 2021 and 1 January 2022	42,228	7,134	49,362
Additions	–	25,336	25,336
Lease modification	–	(497)	(497)
Depreciation *(Note 7)*	(920)	(4,688)	(5,608)
Foreign exchange movements	–	58	58
At 31 December 2022	41,308	27,343	68,651

Note:

Lump sum payments were made upfront to acquire the land use rights with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of their use.

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

As at 31 December 2022, the Group's land use rights with the carrying amount of RMB41,308,000 (2021: RMB42,228,000) were pledged to secure notes payable (Note 29(b)) and bank borrowings (Note 32).

14 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) *Lease liabilities*

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

	2022 *RMB'000*	2021 *RMB'000*
At 1 January	6,020	8,009
Additions	25,336	4,915
Early termination of lease	–	(942)
Lease modification	(521)	–
Rent concession	(310)	–
Interest expense	1,047	582
Lease payments	(16,593)	(6,524)
Foreign exchange movements	58	(20)
At 31 December	15,037	6,020

Future lease payments are due as follows:

	Future lease payments 31 December 2022 *RMB'000*	Interest 31 December 2022 *RMB'000*	Present value 31 December 2022 *RMB'000*
Not later than one year	8,312	(891)	7,421
Later than one year and not later than two years	6,558	(330)	6,228
Later than two years and not later than five years	1,483	(95)	1,388
	16,353	(1,316)	15,037

14 LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) *Lease liabilities* *(Continued)*

	Future lease payments 31 December 2021 *RMB'000*	Interest 31 December 2021 *RMB'000*	Present value 31 December 2021 *RMB'000*
Not later than one year	4,622	(280)	4,342
Later than one year and not later than two years	1,359	(97)	1,262
Later than two years and not later than five years	421	(5)	416
	6,402	(382)	6,020

The present value of future lease payments are analysed as:

	2022 *RMB'000*	2021 *RMB'000*
Current liabilities	**7,421**	4,342
Non-current liabilities	**7,616**	1,678
	15,037	6,020

14 LEASES *(Continued)*

The Group as a lessee *(Continued)*

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

	2022	2021
	RMB'000	*RMB'000*
Depreciation of right-of-use assets *(Note 7)*	**5,608**	6,387
Interest on lease liabilities *(Note 9)*	**1,047**	582
Short-term lease expense *(Note 7)*	**1,455**	292
Low-value lease expense *(Note 7)*	**96**	155
Variable lease payments not included in the measurement of lease liabilities *(Note 7)*	**443**	131
Gain on early termination of lease *(Note 6)*	**–**	62
Gain on lease modification *(Note 6)*	**(24)**	–
Rent concession *(Note 6)*	**(310)**	–
	8,315	7,609

The Group as a lessor

The lease term is 38 months (2021: 38 months), the Group had future aggregate minimum lease rentals receivable under non-cancellable operating leases as follows:

	2022	2021
	RMB'000	*RMB'000*
Not later than one year	**–**	272
Later than one year and not later than five years	**–**	–
	–	272

15 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office furniture and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021						
Cost	78,287	48,888	26,110	7,707	182,736	343,728
Accumulated depreciation	(25,280)	(23,030)	(10,896)	(3,451)	–	(62,657)
Net book amount	53,007	25,858	15,214	4,256	182,736	281,071
Year ended 31 December 2021						
Opening net book amount	53,007	25,858	15,214	4,256	182,736	281,071
Additions	1,490	1,509	2,016	1,912	2,357	9,284
Disposal	(20)	(46)	(29)	(70)	–	(165)
Transfer	222	97	–	–	(319)	–
Depreciation *(Note 7)*	(3,812)	(3,733)	(2,567)	(1,134)	–	(11,246)
Closing net book amount	50,887	23,685	14,634	4,964	184,774	278,944
At 31 December 2021						
Cost	79,066	50,158	28,058	9,223	184,774	351,279
Accumulated depreciation	(28,179)	(26,473)	(13,424)	(4,259)	–	(72,335)
Net book amount	50,887	23,685	14,634	4,964	184,774	278,944
Year ended 31 December 2022						
Opening net book amount	50,887	23,685	14,634	4,964	184,774	278,944
Additions	468	142	1,991	7,553	237,555	247,709
Disposal	–	–	–	(10)	–	(10)
Written-off	–	–	(11)	–	–	(11)
Transfer	–	–	9	–	(9)	–
Depreciation *(Note 7)*	(3,546)	(3,616)	(2,743)	(990)	–	(10,895)
Closing net book amount	47,809	20,211	13,880	11,517	422,320	515,737
At 31 December 2022						
Cost	79,534	50,300	29,941	16,704	422,320	598,799
Accumulated depreciation	(31,725)	(30,089)	(16,061)	(5,187)	–	(83,062)
Net book amount	47,809	20,211	13,880	11,517	422,320	515,737

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of construction in progress of approximately RMB422,320,000 (2021: RMB184,774,000) 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.

As at 31 December 2022, the Group's buildings with the carrying amount of RMB10,112,000 (2021: RMB10,544,000) were pledged to secure notes payable (Note 29(b)) and bank borrowings (Note 32).

As at 31 December 2022, the Group's plant and machinery with an aggregate net carrying amount of RMB6,958,000 (2021: Nil) were held under sale and leaseback liabilities as set out in Note 32.

16 INVESTMENT PROPERTY

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**12,000**	11,900
Fair value adjustment *(Note 6)*	**100**	100
At 31 December	**12,100**	12,000

As at 31 December 2022, the Group had no unprovided contractual obligations for future repairs and maintenance (2021: Nil).

The Group's investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property through sale. The Group has measured the deferred tax relating to the temporary differences of the investment property using the tax rates and the tax bases that are consistent with the expected manner of recovery of the investment property.

Valuation processes of the Group

The Group's investment property was valued at 31 December 2022 and 2021 by APAC Asset Valuation and Consulting Limited, an independent and qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment property valued. For the investment property, its current use equates the highest and best use.

Discussions of valuation processes and results are held between management and the valuer on an annual basis, in line with the Group's annual reporting dates.

16 INVESTMENT PROPERTY *(Continued)*

Valuation processes of the Group *(Continued)*

At each reporting dates, management:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report; and
- Holds discussions with the independent valuer.

Valuation technique

Valuation is based on direct comparison approach assuming sale of the property in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as locations and property size.

Information about fair value measurements using significant unobservable inputs (level 3).

				Valuation methodology	Unobservable inputs	Amount of Unobservable inputs		Relationship of unobservable inputs to fair value
		2022 ***RMB'000***	2021 *RMB'000*			**2022**	2021	
Investment property	Level 3	**12,100**	12,000	Direct comparison method	Market price (RMB/square meter)	**19,200**	19,098	The higher market price, the higher the fair value.

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

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

As at 31 December 2022 and 2021, the Group's investment property was pledged to secure notes payable (Note 29(b)) and bank borrowings (Note 32).

17 INTANGIBLE ASSETS

	Computer software *RMB'000*	Patents *RMB'000*	Development cost *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2021, 31 December 2021 and 1 January 2022	774	750	–	1,524
Addition	27	–	500	527
At 31 December 2022	801	750	500	2,051
Accumulated amortisation				
At 1 January 2021	517	750	–	1,267
Amortisation	74	–	–	74
At 31 December 2021 and 1 January 2022	591	750	–	1,341
Amortisation	74	–	–	74
At 31 December 2022	665	750	–	1,415
Net book value				
At 31 December 2022	136	–	500	636
At 31 December 2021	183	–	–	183

Amortisation had been charged in administrative and other operating expenses.

18 INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**22,615**	23,375
Work in progress	**113**	40
Finished goods	**27,192**	33,448
	49,920	56,863

The cost of inventories included in cost of sales during the year ended 31 December 2022 amounted to RMB450,198,000 (2021: RMB344,743,000).

During the year ended 31 December 2022, the Group did not make or reverse any provision for inventories (2021: written off of RMB169,000).

19 TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Non-current		
Deposits	**60**	83
Current		
Trade receivables, net (a)	**120,568**	96,800
Other receivables, net (b)	**25,041**	3,486
Prepayments (c)	**95,057**	130,707
Deposits, net (d)	**2,951**	2,245
	243,617	233,238
	243,677	233,321

19 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2022 *RMB'000*	2021 *RMB'000*
RMB	**173,285**	170,144
USD	**70,321**	63,069
HKD	**71**	108
	243,677	233,321

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

(a) Trade receivables, net

The credit period granted to customers is generally between 0 to 360 days (2021: 0 to 360 days). The ageing analysis of the trade receivables from the date of sales is as follows:

	2022 *RMB'000*	2021 *RMB'000*
Up to 3 months	**58,871**	55,126
3 to 6 months	**14,193**	7,008
6 to 12 months	**31,808**	36,009
Over 12 months	**26,297**	2,857
	131,169	101,000
Loss allowance for impairment	**(10,601)**	(4,200)
	120,568	96,800

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 40% (2021: 65%) of the Group's revenue for the year. They accounted for 20% (2021: 68%) of the gross trade receivable balances as at 31 December 2022.

19 TRADE AND OTHER RECEIVABLES *(Continued)*

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

As at 31 December 2022, trade receivables with gross carrying amount of RMB29,423,000 (2021: RMB10,006,000) were past due.

The Group and the Company recognised impairment loss based on the accounting policy stated in Note 2.11.2.

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

	2022	2021
	RMB'000	*RMB'000*
Up to 3 months	**57,621**	53,986
3 to 6 months	**13,897**	6,979
6 to 12 months	**31,139**	35,350
Over 12 months	**17,911**	485
	120,568	96,800

The maximum exposure to credit risk at the reporting date is the carrying values of each class of receivables mentioned above. The Group does not hold any material collateral as security for these receivables.

As at 31 December 2022, loss allowances of approximately RMB10,601,000 were made against the gross amount of trade receivables (2021: RMB4,200,000).

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

	RMB'000
At 1 January 2021	3,193
Impairment losses recognised	1,007
At 31 December 2021 and 1 January 2022	4,200
Impairment losses recognised	6,401
At 31 December 2022	10,601

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Other receivables, net

	2022 *RMB'000*	2021 *RMB'000*
Government grants receivable	**21,974**	1,915
Amount due from third parties *(Note)*	**2,111**	414
Others	**956**	1,157
	25,041	3,486

Note: The amount due from third parties are unsecured, interest-free and repayable on demand.

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

	RMB'000
At 1 January 2021	214
Impairment losses recognised	2,816
Exchange adjustment	(48)
At 31 December 2021 and 1 January 2022	2,982
Reversal of impairment losses recognised	(1,352)
Exchange adjustment	194
At 31 December 2022	1,824

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Prepayments

Prepayments are mainly advance payments to suppliers for raw materials.

(d) Deposits, net

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

	RMB'000
At 1 January 2021	14
Impairment losses recognised	56
Exchange adjustment	–
At 31 December 2021 and 1 January 2022	70
Impairment losses recognised	13
Exchange adjustment	–
At 31 December 2022	83

20 PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2022 and 2021, prepayments for construction in progress, and plant and equipment represents advances made under construction contracts and purchases contracts for the development of production plant in the PRC.

21 FINANCIAL ASSET AT FVOCI/FINANCIAL ASSET AT FVTPL

A. Financial Asset at FVOCI

(i) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more appropriate.

(ii) Equity investment in Ever Clever Group Limited ("Ever Clever")

	2022 ***RMB'000***	2021 *RMB'000*
Non-current		
Unlisted equity securities		
Ordinary shares – Ever Clever	**–**	–

The Group designated the equity investment in Ever Clever as a financial asset at FVOCI upon initial recognition as the investment is not held for trading.

25% equity interest in Ever Clever was initially recognised of approximately RMB152,155,000 at 8 January 2018. During the year ended 31 December 2022, there was no change in fair value of the financial asset at FVOCI (2021: no change in fair value of the financial asset at FVOCI).

As 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company) (the "HGRL") (the subsidiary of Ever Clever) has been taken over by another entity appointed by the Huailai county government since September 2020, the Directors of the Company considered that the takeover may be sustained and the HGRL's financial position was in doubt. In addition, HGRL had significant overdue payables as at 31 December 2021 and 2022 based on litigation search records. Therefore, net asset value approach was adopted to assess the fair value of 25% equity interest in Ever Clever.

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

A. Financial Asset at FVOCI *(Continued)*

(ii) Equity investment in Ever Clever *(Continued)*

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

	Valuation technique	Significant of unobservable inputs	Range/Amount 2022	Range/Amount 2021	Sensitivity of fair value to the input
Unlisted equity securities – Ever Clever	Net asset value approach	Distress discount (including consideration of lack of marketability)	**66.35%**	66.35%	5% increase/(decrease) in distress discount would result in (decrease)/increase in fair value by Nil (2021: Nil)
		Minority discount	**21.60%**	21.60%	5% increase/(decrease) in minority discount would result in (decrease)/increase in fair value by Nil (2021: Nil)

B. Financial Assets at FVTPL

	2022 *RMB'000*	2021 *RMB'000*
Non-current		
Equity investment *(Note ii)*	**2,000**	–
Current		
Profit guarantee in respect of investment in 25% equity interests of Ever Clever (the "Profit Guarantee") *(Note i)*	**–**	–

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

B. Financial Assets at FVTPL *(Continued)*

Notes:

(i) During the year ended 31 December 2018, the Group acquired 25% equity interest of Ever Clever, which Perfect Century Group Limited (the "EC Vendor") irrevocably guaranteed the Group that, for each of the three consecutive twelve-month periods ending on 31 March 2020, the audited net profit after tax of HGRL, a non wholly-owned subsidiary of Ever Clever, in accordance with the HKFRSs should not be less than RMB55 million for the period from 1 April 2017 to 31 March 2018, RMB65 million for the period from 1 April 2018 to 31 March 2019 and RMB75 million for the period from 1 April 2019 to 31 March 2020 (the "Guaranteed Profit"). The Profit Guarantee represented the fair value of the amount of shortfall between the respective actual profit or loss and the Guaranteed Profit to be received by the Group if the Ever Clever failed to meet the Guaranteed Profit. Details of the Profit Guarantee were disclosed in the Company's announcement on 29 November 2017.

The Profit Guarantee contracted with the EC Vendor was recognised as a derivative financial instrument under HKFRS 9 and accounted for in accordance with note 2.11.5.

During the year ended 31 December 2020, the Directors of the Company acted as plaintiff to commence the legal proceedings in the High Court of Hong Kong on 2 November 2020 against the EC Vendor as defendant for, among others, cash compensation payable by the EC Vendor as a result of the breach of its obligations under the sale and purchase agreement dated 29 November 2017 ("Sale and Purchase Agreement") to deliver the audited financial statements of HGRL and its failure to evidence or prove the fulfilment of the Profit Guarantee. Based on the unknown willingness and ability of the EC Vendor fulfilling the Profit Guarantee, the Directors of the Company re-assessed the valuation techniques of the fair value of the Profit Guarantee and concluded that given the current situation, EC Vendor was in default of its obligations under the Profit Guarantee arrangement and the default model was adopted for the year ended 31 December 2022 and 2021. The fair value of the Profit Guarantee as at 31 December 2022 was estimated by applying the income approach at a discount rate of 12% (2021: 12%). The fair value of the Profit Guarantee was derived based on default model due to the substantial default risk of the EC Vendor.

The estimated compensation amount under the terms and conditions of the Profit Guarantee, the expected default rate and expected recovery rate were considered in the cash flow forecast. Change in the fair value of the Profit Guarantee of Nil (2021: Nil) was recognised in profit or loss in the consolidated statement of comprehensive income (Note 6).

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

B. Financial Assets at FVTPL *(Continued)*

Notes: (Continued)

(i) *(Continued)*

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

	Valuation technique	Significant of unobservable inputs	Range/Amount 2022	Range/Amount 2021	Sensitivity of fair value to the input
Profit Guarantee	Default model	Expected default rate	**100%**	100%	10% increase/(decrease) in expected default rate would result in (decrease)/increase in fair value by Nil (2020: Nil)
		Expected recovery rate	**0%**	0%	10% increase in expected recovery rate would result in increase in fair value by RMB282,750,000 (2021: RMB282,750,000)

(ii) Equity investment

The balance as at 31 December 2022 represented unlisted equity investment in 10% equity interest of a private company incorporated in PRC.

Change in the fair value of the financial asset at FVTPL of RMB1,000,000 (2021: Nil) was recognised in profit or loss in the consolidated statement of comprehensive income (Note 6).

In determining fair value, specific valuation techniques (market approach) are used. Information about fair value measurement using significant unobservable inputs (Level 3):

	Valuation technique	Significant of unobservable inputs	Amount	Relationship of Unobservable inputs to fair value	Sensitivity of fair value to the input
Equity investment	Market model	*EV/S ratio	0.29x	The higher EV/S ratio, the higher the fair value.	5% increase/decrease in EV/S ratio would result in increase/decrease in fair value by RMB115,000
		DLOM	15.8%	The higher DLOM, the lower the fair value.	5% increase/decrease in DLOM would result in decrease/increase in fair value by RMB20,000

22 CASH AND CASH EQUIVALENTS

	2022 *RMB'000*	2021 *RMB'000*
Cash at banks and in hand	**50,786**	24,259
Cash and cash equivalents	**50,786**	24,259

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

	2022 *RMB'000*	2021 *RMB'000*
RMB	**37,300**	13,681
HKD	**380**	1,151
USD	**13,106**	9,427
	50,786	24,259

The Group had cash and cash equivalents denominated in RMB of approximately RMB37,299,000 (2021: RMB13,681,000) and the remittance of these funds out of the PRC is subject to exchange control restrictions imposed by the PRC government.

The carrying amounts of cash and cash equivalents approximate to their fair values and represent maximum exposure to credit risk.

23 PLEDGED BANK DEPOSITS

Pledged bank deposits represented bank deposits placed as guarantee deposits for issuing notes payable (Note 29(b)) and secure the Group's banking facilities.

The effective interest rate of pledged bank deposits was 1.08% (2021: 0.90%) per annum at 31 December 2022. All pledged bank deposits were denominated in RMB and USD, and kept with banks in the PRC and Hong Kong.

24 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost		Assets at FVOCI		Assets at FVTPL		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 31 December								
Assets as per consolidated statement of financial position								
Trade and other receivables excluding prepayments and government grant receivables	**126,646**	100,699	**–**	–	**–**	–	**126,646**	100,699
Financial assets at FVTPL	**–**	–	**–**	–	**2,000**	–	**2,000**	–
Cash and cash equivalents	**50,786**	24,259	**–**	–	**–**	–	**50,786**	24,259
Pledged bank deposits	**29,138**	34,271	**–**	–	**–**	–	**29,138**	34,271
Total	**206,570**	159,229	**–**	–	**2,000**	–	**208,570**	159,229

	Liabilities at amortised cost		Liabilities at FVTPL		Total	
	2022	2021	**2022**	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 31 December						
Liabilities as per consolidated statement of financial position						
Note	**36,328**	49,876	**–**	–	**36,328**	49,876
Bank and other borrowings	**508,060**	234,579	**–**	–	**508,060**	234,579
Convertible bonds	**79,084**	69,925	**–**	–	**79,084**	69,925
Trade and other payables (excluding other taxes payable)	**101,155**	161,273	**–**	–	**101,155**	161,273
Lease liabilities	**15,037**	6,020	**–**	–	**15,037**	6,020
Total	**739,664**	521,673	**–**	–	**739,664**	521,673

Notes to the Consolidated Financial Statements

25 SHARE CAPITAL AND SHARE PREMIUM

	31 December 2022 and 2021	
	Number of shares *(thousands)*	*HKD'000*
Authorised capital:		
Ordinary shares of HKD0.01 each	**2,000,000**	**20,000**

	Issued and fully paid: *Number of ordinary shares (of HKD0.01 each)*	Share capital *RMB'000*	Share premium *RMB'000*
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	491,800,000	3,901	150,143

All shares issued rank pari passu against each other. There are no changes in the issued capital of the Company at the year ended 31 December 2022 and 2021.

26 FINANCIAL GUARANTEE CONTRACTS

As at 31 December, 2022, the Company has executed a guarantee (2021: one) to a financial institution in the amount not exceeding RMB40,000,000 (2021: RMB40,000,000) to secure the bank borrowings (Note 32) and notes payable (Note 29(b)) borrowed by a wholly-owned subsidiary, totalling approximately RMB30,000,000 (2021: RMB33,649,000).

As at 31 December, 2022, a wholly-owned subsidiary has executed a guarantee (2021: one) to a financial institution to secure the facilities available to the Company in the amount not exceeding USD11,150,000 (equivalent to approximately RMB77,655,000) (2021: USD11,150,000 (equivalent to approximately RMB71,089,000)). As at 31 December 2021 and 2022, all banking facilities of this guarantee was utilised.

27 OTHER RESERVES OF THE GROUP

	Capital reserve RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Investment revaluation reserve RMB'000	Exchange reserve RMB'000	Convertible bonds equity reserve RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	8,986	28,029	37,867	(152,155)	10,507	–	–	(66,766)
Profit appropriation (a)	–	–	4,539	–	–	–	–	4,539
Issuance of convertible bonds *(Note 31)*	–	–	–	–	–	7,176	–	7,176
Transaction with non-controlling interests *(Note 36)*	–	–	–	–	–	–	7,247	7,247
Currency translation differences	–	–	–	–	10,588	–	–	10,588
At 31 December 2021 and 1 January 2022	8,986	28,029	42,406	(152,155)	21,095	7,176	7,247	(37,216)
Profit appropriation (a)	–	–	4,231	–	–	–	–	4,231
Currency translation differences	–	–	–	–	(27,439)	–	–	(27,439)
At 31 December 2022	8,986	28,029	46,637	(152,155)	(6,344)	7,176	7,247	(60,424)

(a) In accordance with relevant laws and regulations of the PRC, Ludao PRC should make appropriation of not less than 10% of its net income after tax to legal reserve. Further appropriation is optional when the accumulated statutory reserve reaches 50% or more of its registered capital. Upon approval from the board of directors, the statutory reserves can be used to offset accumulated losses of Ludao PRC.

28 DEFERRED GOVERNMENT GRANTS

	2022 **RMB'000**	2021 RMB'000
At 1 January	**352**	481
Addition	**10,000**	–
Recognised to consolidated profit or loss	**(129)**	(129)
At 31 December	**10,223**	352

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

29 TRADE AND OTHER PAYABLES

	2022 *RMB'000*	2021 *RMB'000*
Trade payables (a)	**68,821**	63,318
Notes payable (b)	**17,173**	84,243
	85,994	147,561
Other payables:		
Deposit received from customers	**2,966**	3,196
Other taxes payable	**2,597**	2,028
Accrued salaries and wages	**2,850**	2,971
Accrued interest	**487**	600
Accrued expenses and others	**8,858**	6,945
	103,752	163,301

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

	2022 *RMB'000*	2021 *RMB'000*
RMB	**102,713**	162,329
HKD	**797**	338
USD	**242**	634
	103,752	163,301

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

29 TRADE AND OTHER PAYABLES *(Continued)*

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

	2022	2021
	RMB'000	*RMB'000*
Up to 3 months	**42,844**	38,878
3 to 6 months	**9,028**	15,299
6 to 12 months	**14,312**	7,230
Over 12 months	**2,637**	1,911
	68,821	63,318

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

(b) Notes payables represented bank acceptance notes, which were subject to surcharge ranging from 0 % to 0.06 % (2021: 0% to 0.06%) of the face value of the notes, with maturity dates from 22 January 2023 to 9 June 2023 (2021: from 2 January 2022 to 21 June 2022), and were secured by pledged bank deposits (Note 23), the land use rights (Note 14) and certain property, plant and equipment (Note 15) of the Group.

30 NOTE

	2022	2021
	RMB'000	*RMB'000*
Current	**36,328**	49,876

During the year ended 31 December 2018, the Company issued 2-year note at total par value of HKD120,000,000 with coupon rate of 9.00% per annum (the "Note"). The total net proceeds after issuance costs were RMB101,397,544 and the effective interest rate is 11.03% per annum. The Note is secured and guaranteed by Mr. Yu Yuerong, a Director of the Company and is secured by a share charge over 25% equity interest in Ever Clever.

30 NOTE *(Continued)*

During the year ended 31 December 2021, the Company, Prosper One, Mr. Yu and the Note Purchaser entered into a 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. Based on the supplemental deed dated 28 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.

Based on the assessment performed by the Group, the modifications were regarded as non-substantial modifications. The net loss on modifications of Note of approximately RMB154,000 was recognised in consolidated profit or loss at the date of modification for the year ended 31 December 2021 (Note 6).

During the year ended 31 December 2022, the Company, Prosper One, Mr. Yu and the Note Purchaser entered into a 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 15 March 2022 to 15 March 2023. The Company has redeemed a portion of the Note in the principal amount of HKD12,000,000 (equivalent to approximately RMB10,262,000), 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. Based on the supplemental deed dated 25 March 2022, the Company has undertaken to redeem another portion of the Note in the principal amount of HKD8,000,000 (equivalent to approximately RMB6,842,000), and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note accrued up to (and including) 15 September 2022, which was settled by the Company on 14 September 2022.

Based on the assessment performed by the Group, the modifications were regarded as non-substantial modifications. The net gain on modifications of Note of approximately RMB1,364,000 was recognised in consolidated profit or loss at the date of modification for the year ended 31 December 2022 (Note 6).

The Company may at any time before the maturity dates redeem the Note (in whole or in part) at 100% of the total principal amounts together with payment of interests, outstanding administrative fee and all outstanding amounts payables by the Company to noteholder accrued up to the date of such early redemption.

31 CONVERTIBLE BONDS/FINANCIAL LIABILITIES AT FVTPL

(a) Pursuant to the Sale and Purchase Agreement, the Company issued convertible bonds with an aggregate principal amount of RMB32,000,000 (equivalent to HKD37,760,000) (the "Convertible Bonds due 2021") to the EC Vendor as part of the consideration for the acquisition of 25% equity interest in the issued share capital of Ever Clever in respect of the Sale and Purchase Agreement entered into between Prosper One Development Limited (the "Purchaser"), a wholly-owned subsidiary of the Company and the EC Vendor. The Convertible Bonds due 2021 is denominated in RMB, bears zero interest and will be matured on 28 March 2021. The Company shall redeem at 100% of the principal amount on the maturity date as stated in the deed constituting convertible bonds dated 29 November 2017. The Convertible Bonds 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.

According to the Profit Guarantee given by the EC Vendor in favour of the Company pursuant to the terms of the Sale and Purchase Agreement, the Convertible Bonds due 2021 holders have the right to convert their Convertible Bonds due 2021 into fully paid ordinary shares of the Company at any time during the conversion period.

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 on 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).

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. A gain on cancellation of Convertible Bonds due 2021 of RMB34,329,000 was recognised in profit or loss during the year ended 31 December 2021 (Note 6).

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

(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 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 consolidated statement of financial position are calculated as follows:

	Convertible Bonds due 2021		Convertible Bonds due 2024		
	Liability component	Derivative component	Liability component	Equity component	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	34,296	–	–	–	34,296
Issuance of convertible bonds	–	–	69,152	7,176	76,328
Interest expense *(Note 9)*	33	–	1,645	–	1,678
Cancellation of convertible bonds *(Note 6)*	(34,329)	–	–	–	(34,329)
Foreign exchange movements	–	–	(872)	–	(872)
At 31 December 2021 and 1 January 2022	–	–	69,925	7,176	77,101
Interest expense *(Note 9)*	–	–	7,257	–	7,257
Repayment	–	–	(4,684)	–	(4,684)
Foreign exchange movements	–	–	6,586	–	6,586
At 31 December 2022	–	–	79,084	7,176	86,260

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

The Group's Convertible Bonds due 2024 were valued by an independent valuer by using binomial option pricing model with the following key assumptions at the issuance date of the Convertible Bonds due 2024:

	2021
Stock price of the Company	HKD1.25
Volatility	39.0%
Risk-free interest rate	0.41%
Bond discount rate	9.75%

32 BANK AND OTHER BORROWINGS

	2022 ***RMB'000***	2021 *RMB'000*
Non-current		
Bank borrowings – secured	**386,450**	–
Sales and leaseback liabilities	**16,720**	–
	403,170	–
Current		
Bank borrowings – secured	**86,232**	195,161
Bank borrowings – unsecured	**9,158**	39,418
Sales and leaseback liabilities	**9,500**	–
	104,890	234,579

Bank borrowings of approximately RMB472,682,000 (2021: approximately RMB195,161,000) are secured by the Group's land use rights (Note 14), property, plant and equipment (Note 15), investment property (Note 16) and pledged bank deposits (Note 23). The remaining balance of approximately RMB9,158,000 (2021: approximately RMB39,418,000) is unsecured.

As at 31 December 2022, the Group's plant and machinery with an aggregate net carrying amount of RMB6,958,000 (2021: Nil) were held under sale and leaseback liabilities as set out in Note 15.

32 BANK AND OTHER BORROWINGS *(Continued)*

The exposure of the Group's bank borrowings to interest-rate changes and the contractual repricing dates or maturity date, whichever is earlier, is within one year.

The annual weighted average effective interest rate as at 31 December 2022 was 4.31% (2021: 3.92%).

At the end of the reporting period, the Group's bank borrowings are scheduled to repay as follows:

	2022 *RMB'000*	2021 *RMB'000*
On demand or within one year	**95,390**	234,579
More than one year, but not exceeding two years	**150,900**	–
More than two years, but not exceeding five years	**92,650**	–
More than five years	**142,900**	–
	481,840	234,579

At the end of the reporting period, the Group's sale and leaseback liabilities are scheduled to repay as follows:

	2022 *RMB'000*	2021 *RMB'000*
On demand or within one year	**9,500**	–
More than one year, but not exceeding two years	**10,150**	–
More than two years, but not exceeding five years	**6,570**	–
	26,220	–

32 BANK AND OTHER BORROWINGS *(Continued)*

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

	2022	2021
	RMB'000	*RMB'000*
Fixed-rate bank borrowings	**269,158**	94,446
Floating-rate bank borrowings	**238,902**	140,133
	508,060	234,579

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

	2022	2021
	RMB'000	*RMB'000*
USD	**64,131**	99,279
RMB	**443,929**	135,300
	508,060	234,579

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

33 DEFERRED TAX

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

	Government grants payable	**ECL allowance**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2021	73	–	73
Charged to the consolidated profit or loss	(19)	–	(19)
At 31 December 2021 and 1 January 2022	54	–	54
(Charged)/credited to the consolidated profit or loss	(19)	1,821	1,802
At 31 December 2022	35	1,821	1,856

33 DEFERRED TAX *(Continued)*

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

	Fair value adjustment on investment property *RMB'000*	Fair value adjustment on financial asset at FVTPL *RMB'000*	LAT *RMB'000*	Fair value adjustment on land use right *RMB'000*	Fair value adjustment on property, plant and equipment *RMB'000*	Total *RMB'000*
At 1 January 2021	980	1	1,837	2,000	3,514	8,332
Charged/(credited) to the consolidated profit or loss	15	(1)	30	(41)	(25)	(22)
At 31 December 2021 and 1 January 2022	995	–	1,867	1,959	3,489	8,310
(Charged)/credited to the consolidated profit or loss	15	250	30	(41)	(23)	231
As at 31 December 2022	1,010	250	1,897	1,918	3,466	8,541

34 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2022 (2021: Nil).

35 CASH FLOWS INFORMATION

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

	2022 *RMB'000*	2021 *RMB'000*
Profit before income tax	**24,736**	40,048
Adjustments for:		
Interest income *(Note 9)*	**(631)**	(581)
Interest expense *(Note 9)*	**13,658**	17,479
Depreciation of property, plant and equipment *(Note 15)*	**10,895**	11,246
Fair value gain on investment property *(Note 16)*	**(100)**	(100)
Inventories written off *(Note 7)*	**–**	169
Change in fair value of financial asset at FVTPL *(Note 6)*	**(1,000)**	5
Share of results of a joint venture *(Note 13)*	**(203)**	1,500
Impairment loss on investment in a joint venture *(Note 13)*	**212**	5,389
Depreciation of right-of-use assets *(Note 14)*	**5,608**	6,387
Amortisation of intangible assets *(Note 17)*	**74**	74
Impairment losses on trade receivables, other receivables and deposits	**5,062**	3,879
Deferred government grants income *(Note 28)*	**(129)**	(129)
Losses on disposals of property, plant and equipment	**7**	136
Written-off of property, plant and equipment	**11**	–
Net (gain)/loss on non-substantial modifications *(Note 30)*	**(1,364)**	154
Rent concession *(Note 6)*	**(310)**	–
Gain on early termination of lease contract *(Note 6)*	**–**	(62)
Gain on lease modification *(Note 6)*	**(24)**	–
Gain on cancellation of convertible bonds *(Note 31(a))*	**–**	(34,329)
Changes in working capital:		
Increase in trade and other receivables	**(15,771)**	(27,702)
Decrease in inventories	**6,943**	11,799
Decrease in trade and other payables and contract liabilities	**(14)**	(21,891)
Cash generated from operations	**47,660**	13,471

35 CASH FLOWS INFORMATION *(Continued)*

(ii) Reconciliation of liabilities arising from financing activities

	Bank and other borrowings *(Note 32)* *RMB'000*	Interest payable *(Note 29)* *RMB'000*	Notes payables *(Note 29(b))* *RMB'000*	Convertible bonds – liability component *(Note 31)* *RMB'000*	Note *(Note 30)* *RMB'000*	Lease liabilities *(Note 14)* *RMB'000*	Total *RMB'000*
At 1 January 2022	234,579	600	84,243	69,925	49,876	6,020	445,243
Changes from cash flows:							
Proceeds from bank and other borrowings	638,148	–	–	–	–	–	638,148
Repayment of bank and other borrowings	(370,641)	–	–	–	–	–	(370,641)
Interest paid	–	(16,453)	–	–	–	(1,047)	(17,500)
Proceeds from notes payable	–	–	78,581	–	–	–	78,581
Repayment of notes payable	–	–	(145,651)	–	–	–	(145,651)
Repayment of convertible bonds	–	–	–	(4,684)	–	–	(4,684)
Repayment of notes	–	–	–	–	(20,690)	–	(20,690)
Repayment of principal portion of lease liabilities	–	–	–	–	–	(15,546)	(15,546)
Total changes from financing cash flows:	267,507	(16,453)	(67,070)	(4,684)	(20,690)	(16,593)	142,017
Foreign exchange adjustments:	5,974	41	–	6,586	3,842	58	16,501
Other changes:							
Interest expenses (non-cash)	–	690	–	7,257	4,664	1,047	13,658
Finance cost capitalised in construction-in-progress (non-cash)	–	15,609	–	–	–	–	15,609
Non-substantial modification (non-cash)	–	–	–	–	(1,364)	–	(1,364)
Addition of lease liabilities (non-cash)	–	–	–	–	–	25,336	25,336
Rent concession (non-cash)	–	–	–	–	–	(310)	(310)
Lease modification (non-cash)	–	–	–	–	–	(521)	(521)
Total other changes	5,974	16,340	–	13,843	7,142	25,610	68,909
At 31 December 2022	508,060	487	17,173	79,084	36,328	15,037	656,169

35 CASH FLOWS INFORMATION *(Continued)*

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

	Bank and other borrowings *(Note 32)* *RMB'000*	Interest payable *(Note 29)* *RMB'000*	Notes payables *(Note 29(b))* *RMB'000*	Convertible bonds – liability component *(Note 31)* *RMB'000*	Note *(Note 30)* *RMB'000*	Lease liabilities *(Note 14)* *RMB'000*	Total *RMB'000*
At 1 January 2021	156,665	386	117,848	34,296	84,019	8,009	401,223
Changes from cash flows:							
Proceeds from bank and other borrowings	363,931	–	–	–	–	–	363,931
Repayment of bank and other borrowings	(284,303)	–	–	–	–	–	(284,303)
Interest paid	–	(6,851)	–	–	–	(582)	(7,433)
Proceeds from notes payable	–	–	180,011	–	–	–	180,011
Repayment of notes payable	–	–	(213,616)	–	–	–	(213,616)
Issuance of convertible bonds	–	–	–	76,328	–	–	76,328
Repayment of notes	–	–	–	–	(40,363)	–	(40,363)
Repayment of principal portion of lease liabilities	–	–	–	–	–	(5,942)	(5,942)
Total changes from financing cash flows:	79,628	(6,851)	(33,605)	76,328	(40,363)	(6,524)	68,613
Foreign exchange adjustments:	(1,714)	(232)	–	(872)	(1,856)	(20)	(4,694)
Other changes:							
Interest expenses (non-cash)	–	7,297	–	1,678	7,922	582	17,479
Non-substantial modification (non-cash)	–	–	–	–	154	–	154
Cancellation of convertible bonds (non-cash)	–	–	–	(34,329)	–	–	(34,329)
Equity component of convertible bonds (non-cash)	–	–	–	(7,176)	–	–	(7,176)
Addition of lease liabilities (non-cash)	–	–	–	–	–	4,915	4,915
Termination of lease (non-cash)	–	–	–	–	–	(942)	(942)
Total other changes	(1,714)	7,065	–	(40,699)	6,220	4,535	(24,593)
At 31 December 2021	234,579	600	84,243	69,925	49,876	6,020	445,243

35 CASH FLOWS INFORMATION *(Continued)*

(iii) Major non-cash transactions

During the year ended 31 December 2022, there was non-cash additions to right-of-use assets (Note 14(a)) and lease liabilities (Note 14(b)) of approximately RMB25,336,000 and RMB25,336,000 respectively, in respect of lease arrangements for a machinery, dormitory and a plant.

During the year ended 31 December 2021, there was a non-cash movement of convertible bond (Note 31) of RMB34,329,000 in respect of the cancellation of the convertible bond. The Group had non-cash additions to right-of-use assets (Note 14(a)) and lease liabilities (Note 14(b)) of approximately RMB4,929,000 and RMB4,915,000 respectively, in respect of lease arrangements for offices, dormitory and a plant.

36 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On 3 December 2020 and 4 December 2020, Sinopharm Jinyue Aerosol (as defined in Note 39), a non wholly-owned subsidiary of the Group and Ludao PRC, a wholly-owned subsidiary of the Group entered into an agreement and a supplemental agreement to transfer the interests in the unpaid registered capital of Zhejiang Sinopharm Jinyue Aerosol from Sinopharm Jinyue Aerosol to Ludao PRC with effect from 1 January 2021 (the “Transfer”). As the Group held 89% equity interests only in Sinopharm Jinyue Aerosol, the effective ownership interests of the Group in Zhejiang Sinopharm Jinyue Aerosol after the Transfer increased from 93.4% to 98.5%. Consequently, the non-controlling interests in Zhejiang Sinopharm Jinyue Aerosol decreased by approximately RMB7,247,000 and the same amount was recognised directly in other reserves attributable to owners of the Company since no consideration was paid for the Transfer.

37 CONTINGENT LIABILITIES

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

38 CAPITAL COMMITMENTS

The Group’s capital expenditure contracted for but not yet incurred, excluding amounts recorded in prepayments for property, plant and equipment, is as follows:

	2022 ***RMB’000***	2021 *RMB’000*
Property, plant and equipment	**153,589**	164,888

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	Notes	As at 31 December 2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		**508**	776
Investments in subsidiaries	*(a)*	**15,295**	15,295
Investment in a joint venture		**54,500**	54,500
Trade and other receivables		**60**	83
		70,363	70,654
Current assets			
Trade and other receivables		**11**	25
Pledged bank deposits		**12,540**	14,716
Cash and cash equivalents		**757**	1,154
		13,308	15,895
Total assets		**83,671**	86,549
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**3,901**	3,901
Share premium		**165,873**	165,873
Other reserves	*(b)*	**22,447**	21,838
Accumulated losses	*(c)*	**(368,916)**	(317,640)
Total deficit		**(176,695)**	(126,028)

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

Statement of financial position of the Company *(Continued)*

	Notes	As at 31 December 2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds		**79,084**	69,925
Lease liabilities		**182**	482
		79,266	70,407
Current liabilities			
Trade and other payables		**2,438**	1,874
Bank borrowings		**62,681**	70,133
Note		**36,328**	49,876
Amounts due to subsidiaries		**79,308**	19,992
Lease liabilities		**345**	295
		180,100	142,170
Total liabilities		**260,366**	212,577
Total equity and liabilities		**83,671**	86,549

The statement of financial position of the Company was approved by the Board of Directors on 30 March 2023 and was signed on its behalf.

Yu Yuerong
Director

Wang Xiaobing
Director

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

Statement of financial position of the Company *(Continued)*

(a) The following is a list of the principal subsidiaries at 31 December 2022:

Name	Form of business structure	Place and date of incorporation/ establishment	Issued share capital/paid up registered capital	Equity interest held		Principal activities and place of operation
				2022	2021	
Directly held:						
Ludao BVI	Limited liability company	Incorporated in BVI on 18 December 2007	111 ordinary shares of USD111	**100%**	100%	Investment holding, BVI
Indirectly held:						
Ludao PRC	Wholly-foreign owned enterprise	Established in the PRC on 23 August 2002	HKD408,000,000	**100%**	100%	Manufacturing and selling of aerosol products, the PRC
國藥景岳氣霧劑有限公司 (Sinopharm Jinyue Aerosol Group Co. Ltd* ("Sinopharm Jinyue Aerosol"))	Limited liability company	Established in the PRC on 13 September 2017	RMB68,550,000	**89%**	89%	Research and development, manufacture and sale of medical and edible aerosol products, the PRC
浙江國藥景岳氣霧劑有限公司 (Zhejiang Sinopharm Jinyue Aerosol Co., Ltd* ("Zhejiang Sinopharm Aerosol"))	Limited liability company	Established in the PRC on 27 June 2019	RMB445,600,000	**98.5%**	98.5%	Research and development on aerosol and make up products, provide consultancy service on aerosol and make up products, production and manufacturing and selling of aerosol and related products, the PRC

* The English name is for identification purpose only.

All subsidiaries are limited liability companies.

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

Statement of financial position of the Company *(Continued)*

(b) Reserve movement of the Company

	Convertible bonds reserve *RMB'000*	Exchange reserve *RMB'000*	Total *RMB'000*
At 1 January 2021	–	15,173	15,173
Equity component of convertible bonds *(Note 31)*	7,176	–	7,176
Currency translation differences	–	(511)	(511)
At 31 December 2021 and 1 January 2022	7,176	14,662	21,838
Currency translation differences	–	609	609
At 31 December 2022	7,176	15,271	22,447

(c) Accumulated losses

	2022 *RMB'000*	2021 *RMB'000*
Balance at 1 January	**(317,640)**	(264,064)
Losses for the year	**(51,276)**	(53,576)
Balance at 31 December	**(368,916)**	(317,640)

40 BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

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

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

Name of Directors	Fee		Salary		Discretionary bonus		Employer's contribution to retirement scheme		Total	
	2022 *RMB'000*	2021 *RMB'000*	**2022** *RMB'000*	2021 *RMB'000*	**2022** *RMB'000*	2021 *RMB'000*	**2022** *RMB'000*	2021 *RMB'000*	**2022** *RMB'000*	2021 *RMB'000*
Executive Directors										
Mr. Yu Yuerong										
– also the chief executive	**–**	–	**976**	873	**–**	–	**17**	15	**993**	888
Ms. Pan Yili	**–**	–	**96**	86	**–**	16	**5**	15	**101**	117
Mr. Wang Xiaobing	**–**	–	**195**	196	**–**	36	**10**	20	**205**	252
	–	–	**1,267**	1,155	**–**	52	**32**	50	**1,299**	1,257
Independence non-executive Directors										
Mr. Chan Yin Tsung	**167**	150	**–**	–	**–**	–	**–**	–	**167**	150
Mr. Ruan Lianfa	**135**	142	**–**	–	**–**	–	**–**	–	**135**	142
Ms. Yau Kit Kuen Jean	**167**	150	**–**	–	**–**	–	**–**	–	**167**	150
	469	442	**–**	–	**–**	–	**–**	–	**469**	442

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

There was no directors' retirement benefits, directors' termination benefits, consideration provided to third parties for making available directors' services and no loans, quasi-loans or other dealings entered into by the Group in favour of any directors, bodies corporate controlled by and entities connected with such directors during the year (2021: Nil).

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

41 SUBSEQUENT EVENTS

On 13 March 2023, the Company settled the remaining portion of the Note in the principal amount of HKD40,000,000 (equivalent to approximately RMB35,731,000) and settled all outstanding interest and administrative fees on the aggregate outstanding principal amount of the Note.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is prepared on the basis set out in the notes below:

RESULTS

	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**534,701**	476,397	566,291	412,578	405,047
Cost of sales	**(451,326)**	(347,809)	(385,271)	(299,062)	(309,907)
Gross profit	**83,375**	128,588	181,020	113,516	95,140
Other income and other gains/(expenses) – net	**37,171**	30,773	(7,406)	7,494	14,098
Selling expenses	**(20,612)**	(25,471)	(27,289)	(25,024)	(22,744)
Administrative expenses and impairment losses	**(61,294)**	(74,237)	(71,605)	(47,026)	(46,356)
Finance costs – net	**(14,107)**	(18,105)	(17,965)	(20,054)	(16,581)
Share of results of joint ventures	**203**	(1,500)	(2,013)	2,653	5,126
Share of results of associates	**–**	–	(1,632)	(225)	–
PROFIT BEFORE INCOME TAX	**24,736**	40,048	53,110	31,334	28,683
Income tax expense	**(2,685)**	(4,818)	(12,678)	(7,582)	(5,444)
PROFIT FOR THE YEAR	**22,051**	35,230	40,432	23,752	23,239

ASSETS AND LIABILITIES

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS	**1,150,223**	933,756	859,595	746,220	796,210
TOTAL LIABILITIES	**775,841**	553,986	532,819	419,095	408,264
	374,382	379,770	326,776	327,125	387,946

Notes:

1. The consolidated results of the Group for each of the two years ended 31 December 2022 and 2021 and the consolidated assets and liabilities of the Group as at 31 December 2022 and 2021 are set out on pages 89 to 199 of this annual report.

2. The above summary was prepared as if the current structure of the Group had been in existence throughout these financial years.