China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

UPDATE ON PROFIT GUARANTEE CONCERNING THE DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 25% EQUITY INTEREST OF EVER CLEVER GROUP LIMITED

Reference is made to the announcements of the Company dated 29 November 2017 and 5 December 2017 (the "**Announcements**") in relation to, amongst other things, the acquisition of 25% equity interest of Ever Clever Group Limited. Terms used herein shall have the same meanings as defined in the Announcements unless otherwise specified.

PROFIT GUARANTEE AND UNDERTAKING GIVEN BY THE VENDOR

As disclosed in the Announcements, pursuant to the Sale and Purchase Agreement, the Vendor undertakes and guarantees to the Purchaser that: (i) the audited net profit after tax of 懷來縣恒吉熱力有限公司 (Huailai Hengji Heat Supply Limited Company*) ("**HGRL**"), being the principal operating company within the Target Group, for each of the three twelve-month periods ending 31 March 2018, 2019 and 2020 shall not be less than RMB55 million, RMB65 million and RMB75 million respectively; and (ii) it shall procure HGRL to complete the audited financial statements within 90 days from the end of each of the twelve-month periods and submit the relevant audited financial statements to the Group (i.e. by 29 June after the end of each twelve-month period).

Despite various efforts and communications with the Vendor, the Group has been unable to obtain the audited financial statements of HGRL for the first twelve-month period ended 31 March 2018 (the "**First Guarantee Period**"). The Board was recently informed by the Vendor that the audited financial statements of HGRL for the First Guarantee Period cannot be provided for the time being as: (i) the legal representative of HGRL, who is also the sole executive director and one of the shareholders of HGRL, is being involved in a criminal case in the PRC; and (ii) all books and records together with the supporting documents of HGRL have been seized by the Public Security Bureau in the PRC. The Vendor also represents that the personal involvement of the legal representative of HGRL in the criminal case has no adverse effect on the normal business of HGRL.

The failure to provide the audited financial statements of HGRL for the First Guarantee Period to the Group is a breach of the Sale and Purchase Agreement by the Vendor. As the Group is a minority shareholder with no board representation in the Target Group, the Group has no direct means to obtain the financial information of HGRL other than through the Vendor, which is the major shareholder of the Target Company and has agreed to provide the same to the Group pursuant to the terms of the Sale and Purchase Agreement. The Company has also requested such financial information from the Target Company but in vain. As such, the Group is unable to assess for the time being if the profit guarantee given by the Vendor in respect of the First Guarantee Period has been met and if any compensation is required on the Vendor.

2018 INTERIM RESULTS

The management of the Company does not expect that the financial information of the Target Group, especially HGRL, will be available to the Company before the release of the interim results of the Group for the six months ended 30 June 2018 (the "**2018 Interim Results**") by the end of August 2018. Due to the unavailability of the financial information of HGRL, which has been accounted for in the books of the Company as an associate, the results of HGRL cannot be equity accounted for and reflected in the 2018 Interim Results. In order to reflect the current available financial information of the Group to the shareholders and potential investors of the Company, the Company will present the financial information of the Group without taking up and showing any share of profit or loss from the Target Group in the 2018 Interim Results. Based on the preliminary information available, the Group is expected to record a similar level of profit in the 2018 Interim Results as the corresponding period of last year.

The Company is taking all necessary steps to address this issue. The Company will continue to request the Vendor to obtain the relevant financial information of the Target Group including HGRL as soon as possible. The Company will explore all possible actions to be taken including but not limited to taking legal action(s) against the Vendor and/or the Target Group, and enforcement of the share charge given by the Vendor in favour of the Group under the Sale and Purchase Agreement. Further announcement will be made by the Company as and when appropriate when relevant financial information of the Target Group is obtained and/or if there is any action taken by the Company in this regard.

Shareholders and potential investors of the Company are advised to read the Company's announcement on 2018 Interim Results carefully and to exercise caution when dealing in the shares in the Company.

By order of the Board
China Ludao Technology Company Limited
中國綠島科技有限公司
Mr. Yu Yuerong
Chairman and executive Director

Hong Kong, 23 August 2018

* *For translation and identification purposes only*

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