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China Ludao Technology Company Limited

中國綠島科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2023)

UPDATE ON PROFIT GUARANTEE CONCERNING THE DISCLOSEABLE TRANSACTION IN RELATION TO EVER CLEVER GROUP LIMITED

Reference is made to the announcements of the Company dated 29 November 2017, 5 December 2017, 23 August 2018, 4 September 2018, 25 October 2019 and 17 January 2020 (the "**Announcements**"), and the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**") in relation to, amongst other things, the profit guarantee concerning 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.

UPDATE ON HGRL

As disclosed in the Announcements and the 2019 Annual Report, the Company had been tirelessly attempting to but was unable to contact or enquire with the relevant individuals from the EC Vendor or HGRL to provide the audited financial statements of HGRL. In January 2020, the Company had conducted a site visit in the PRC but owing to the investigation process by the Public Security Bureau in the PRC over the books and records of HGRL, it was unable to either reach the management of HGRL or obtain updated financial information regarding the operational and financial performance of HGRL. Based on the observation at the operational site of HGRL, to the best efforts and understanding of the Company, the operation of HGRL was in progress. Based on the results of public search, the corporate status of HGRL remains to be active in operation, business activities and registration and it remains as the holder of a heat supply business licence.

Since the outbreak of the novel coronavirus disease, there has been significant disruption to the communication with entities and personnel based in the PRC due to the social distancing measures and travel restrictions imposed. In March 2020, through certain public searches conducted by the Company on the internet, it had come to the attention of the Company that HGRL as a heat supply company in Huailai County, was alleged to be in non-compliance with section 18(2) of the Measures for the Administration on the Franchise of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》) (the "**Non-Compliance**"), and as a result of the Non-Compliance, the local government of Huailai County had implemented a temporary takeover over HGRL (the "**Temporary Takeover**"). As the EC Vendor and HGRL were often unresponsive to the Company's communication attempts and the Company had very little information on the latest status of HGRL, the Company has engaged a legal adviser in the PRC (the "**PRC Legal Adviser**") to conduct an investigation on HGRL.

The Criminal Case

As details of the criminal case involving the legal representative of HGRL (the "**HGRL Representative**") and leading to the books and records of HGRL being sized by the Public Security Bureau in the PRC (the "**Criminal Case**") are not made public by the courts in the PRC, there is no information available in respect of the details and the latest status of the Criminal Case. As advised by the PRC Legal Adviser, the impact of the Criminal Case on the business operations of HGRL would depend on whether the Criminal Case would interfere with the HGRL Representative carrying out his duties as the legal representative, executive director and general manager of HGRL. However, the Company has not been able to ascertain from the EC Vendor if the HGRL Representative has been detained or not and thus has no information on the impact of the Criminal Case on the business operations of HGRL.

The Non-Compliance and the Temporary Take-over

Based on results of public searches, the local government of Huailai County had published a notice for the hearing to be held on 21 August 2019 by the Huailai County Heat Supply Industry Temporary Takeover Leading Group*（懷來縣供熱行業臨時接管工作領導小組）on the proposed temporary takeover of the HGRL heat supply project on its official website. According to the notice, HGRL as a heat supply company in Huailai County, was alleged to be in non-compliance with section 18(2) of the Measures for the Administration on the Franchise of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》), as a result of which, the local government of Huailai County had proposed to impose the Temporary Takeover on HGRL.

The PRC Legal Adviser has made telephone enquiries with the relevant government authority in respect of the Non-Compliance and the Temporary Takeover and has received verbal confirmation that HGRL has been taken over by a third-party entity appointed by the government. The government authority was not able to confirm the expected duration of the Temporary Takeover or the identity of the third-party entity currently taking over HGRL.

ACTIONS TAKEN OR TO BE TAKEN BY THE COMPANY

As advised by the legal adviser of the Company, the failure on the part of the EC Vendor to fulfill its obligations under the EC Agreement to deliver the audited accounts for all three financial years in accordance with the terms of the EC Agreement (the last one being due to be delivered by 30 June 2020) for an unreasonably long period of time may be sufficient grounds for a deemed non-fulfillment of the EC Profit Guarantee. As such, the Company shall be entitled to claim against the EC Vendor all losses and damages suffered as a result of the breach of the EC Vendor's obligations under the EC Agreement to deliver the audited accounts and fulfill the Profit Guarantee for all three financial years. Pursuant to the terms of the EC Agreement, there is no maximum cap on the cash compensation to which the Company may be entitled using the formula set out in the EC Agreement to calculate the cash compensation in the event of non-fulfillment of the EC Profit Guarantee.

The Company has sought legal advice from its legal advisers and taking into consideration the non-fulfillment of the EC Profit Guarantee, the lack of response from the EC Vendor and the current status of HGRL, the Company intends to, without further notice to the EC Vendor and by the end of September 2020 (i) enforce the share charge executed by the EC Vendor in favour of the Group in respect of the 2,500 shares of EC against the EC Vendor; (ii) cancel the Convertible Bonds in an aggregate principal amount of RMB32 million (equivalent to HK$37.76 million) issued by the Company to the EC Vendor with a maturity date falling on 29 November 2020 and; (iii) make a claim against the EC Vendor in Hong Kong by the end of September 2020 (after taking into consideration of the summer vacation of the High Court in Hong Kong for the whole month of August 2020) for, among other matters, breach of the EC Profit Guarantee.

In this regard, further announcement(s) will be made by the Company on the progress of enforcing its rights under the EC Agreement in October 2020.

By order of the Board
China Ludao Technology Company Limited
Mr. Yu Yuerong
Chairman and executive Director

Hong Kong, 20 August 2020

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; and three independent non-executive directors, namely Mr. Chan Yin Tsung, Mr. Ruan Lianfa and Ms. Yau Kit Kuen Jean.