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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 TRANSACTIONS IN RELATION TO EVER CLEVER GROUP LIMITED AND ILLUSTRIOUS SUCCESS LIMITED

Reference is made to the announcements of the Company dated 4 July 2017 (the “**Illustrious Announcement**”), 29 November 2017, 5 December 2017, 23 August 2018 and 4 September 2018 (the “**EC Announcements**”) in relation to, amongst other things, the profit guarantee concerning the acquisition of 50% of the issued share capital of Illustrious Success Limited and 25% equity interest of Ever Clever Group Limited (“**EC**”, together with its subsidiaries, the “**EC Group**”). Terms used herein shall have the same meanings as defined in the Illustrious Announcement and the EC Announcements unless otherwise specified.

PROFIT GUARANTEE IN RELATION TO ILLUSTRIOUS SUCCESS LIMITED

As disclosed in the Illustrious Announcement and the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), pursuant to the sale and purchase agreement dated 4 July 2017 (the “**Illustrious Agreement**”) and entered into between Wealth Linkage Development Limited (the “**Illustrious Vendor**”), the Guarantors and the Company in relation to the acquisition of 50% of the issued share capital of Illustrious Success Limited (together with its subsidiaries, the “**Illustrious Group**”), the monetary compensation payable by the Illustrious Vendor to the Company shall be calculated as follows:

(The shortfall of the PAT for the relevant financial year \div the profit guarantee set out in the Illustrious Agreement for the relevant financial year) \times the consideration of RMB52,000,000

Based on the audited management accounts of the Illustrious Group prepared for group consolidation purpose and for determining the PAT pursuant to the Illustrious Agreement, which have been prepared and audited on a consolidated basis, the Illustrious Group has achieved a PAT on a consolidated basis of approximately RMB35,906,000 for the year ended 31 December 2017 (the “**YE2017**”), with a surplus of approximately RMB25,906,000 as compared with the profit guarantee set out in the Illustrious Agreement (the “**Illustrious Profit Guarantee**”) for the YE2017, the targeted PAT of RMB10,000,000 was achieved for the YE2017 and no monetary compensation is payable by the Illustrious Vendor for the YE2017.

For the year ended 31 December 2018 (the “**YE2018**”), the Illustrious Group has achieved a PAT on a consolidated basis of approximately RMB10,634,000, with a shortfall of approximately RMB1,366,000 as compared with the Illustrious Profit Guarantee for the YE2018. As such, the monetary compensation payable by the Illustrious Vendor to the Company shall be RMB5,919,000 (i.e. $\text{RMB1,366,000} \div \text{RMB12,000,000} \times \text{RMB52,000,000}$). The parties have agreed that the amount of the monetary compensation, i.e. RMB5,919,000 shall be paid in two equal instalments in December 2019 and December 2020.

PROFIT GUARANTEE IN RELATION TO EVER CLEVER GROUP LIMITED

As disclosed in the EC Announcements and the 2018 Annual Report, Perfect Century Group Limited (the “**EC Vendor**”) was still unable to provide the relevant audited financial statements of HGRL in accordance with the sale and purchase agreement dated 29 November 2017 (the “**EC Agreement**”) and entered into between the EC Vendor and the Company in relation to the acquisition of 25% equity interest of EC. Since the Company was informed of the seizure of the books and records of HGRL by the Public Security Bureau in the People’s Republic of China, it has been following up with the EC Vendor from time to time and using its best efforts to address this issue and attempt to obtain from HGRL the relevant audited financial statements.

On 24 October 2018, the legal advisers of the Company issued a demand letter to the EC Vendor under the instructions of the Company to request for the audited financial statements of HGRL. On 17 December 2018, the legal advisers of the Company further issued two other demand letters to the EC Vendor as a final notice to request for the audited financial statements of HGRL and updates on the criminal offence by the legal representative of HGRL and the documents seized by the Public Security Bureau in the People’s Republic of China.

Thereafter the Company made attempts to communicate and enquire with the relevant individuals from the EC Vendor and HGRL to request for the audited financial statements of HGRL primarily via telephone on several occasions from time to time in 2019 but such attempts did not come to any fruitful results. There has been no new material development since the publication of the 2018 Annual Report. Taking into account that: (i) the Company has only a 25% stake in EC whereas the EC Vendor is the major shareholder of EC, (ii) the Group will continue to rely on the EC Vendor to provide financial information of the EC Group for the year ended 31 March 2019 and the year ending 31 March 2020; (iii) the EC Vendor has, although failed to comply with the requests, been responsive in general to the Company’s requests and enquiries as at the date of this announcement; and (iv) legal advice is being sought from the legal advisers of the Company in respect of the merits of any legal action to be taken against the EC Vendor, the Group had not at this stage commenced any proceeding against the EC Vendor.

If the EC Vendor is still unable to produce the audited financial statements of HGRL for the year ended 31 March 2018 for assessment of the fulfilment of the EC Profit Guarantee by the end of December 2019, it is expected that legal action will be taken against the EC Vendor for, among other claims, (i) the provision of the audited financial statements of HGRL for the year ended 31 March 2018; and (ii) compensation for any shortfall between the actual profit of HGRL for the year ended 31 March 2018 against the EC Profit Guarantee in accordance with the EC Agreement.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders and prospective investors of the Company informed of any material developments in respect of the Illustrious Profit Guarantee and the EC Profit Guarantee.

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

Hong Kong, 25 October 2019

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.