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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)

PROPOSED ISSUE OF NOTE

On 28 May 2018, after trading hours of the Stock Exchange, the Company, the Guarantor and the Investor entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to issue and the Investor has conditionally agreed to subscribe for the Note in the principal sum of up to HK$120,000,000. The Note will be secured by the Personal Guarantee and the Share Charge.

Completion of the Subscription is subject to the satisfaction of the conditions precedent under the Subscription Agreement. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

Date:	28 May 2018 (after trading hours of the Stock Exchange)
Issuer:	The Company
Guarantor:	Mr. Yu
Investor:	Cheer Hope Holdings Limited

The Investor is a limited liability business company incorporated under the laws of the British Virgin Islands and an indirectly wholly-owned special purpose vehicle of CCB International (Holdings) Limited. CCB International (Holdings) Limited is an investment services flagship which is indirectly wholly-owned by China Construction Bank Corporation, a joint-stock company incorporated in the PRC and listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Investor and its respective ultimate beneficial owners are Independent Third Parties.

Principal terms of the Note Instrument

The principal terms of the Note Instrument are summarised below:

Issuer:	The Company
Principal amount:	Up to HK$120,000,000
Maturity Date:	27 May 2020 and the Company may seek the Noteholders' prior written approval to extend the aforesaid original maturity date to a date no later than the third anniversary of the issue date of the Note
Form:	The Note will be issued in registered form in a minimum denomination of HK$10,000,000 or integral multiples thereof and a Note certificate will be issued to each Noteholder in respect of its registered holding of the Note.
Interest rate:	The Note bears interest from and including the date of issue of the Note to the Maturity Date at the rate of 9.0% per annum payable semi-annually. If the interest payment date is not a Business Day, the immediately succeeding Business Day.

Default interest:	15.0% per annum on the aggregate unpaid principal, interest and/or other amounts owed by the Company or the Guarantor to such Noteholder
Security:	The payment obligations and the performance of all of the obligations of the Company under the Note are secured in favour of the Investor ratably and on a *pari passu* basis by the Security Documents.
Status:	The Note shall constitute direct, unsubordinated, unconditional, secured and guaranteed obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves.
Transfer:	A Note may only be transferred (in whole or in part) upon surrender at the specified office of the Note certificate issued in respect of that Note with the endorsed form of notice of transfer duly completed and signed by the Noteholder or his attorney duly authorised in writing.
Redemption on the Maturity Date:	The Company shall redeem all the outstanding Note held by a Noteholder on the Maturity Date, without the need for such Noteholder to serve any redemption notice, at an amount equal to the aggregate of (i) the aggregate principal amount of such outstanding Note held by such Noteholder; (ii) any accrued but unpaid interest (including any default interest) and outstanding Administrative Fees on such outstanding Note; and (iii) all other outstanding amounts (if any) payable by the Company to such Noteholder under the Transaction Documents.

Company's early redemption right:	At any time during the first six (6) months from the issue date, in the absence of any event of default, the Company may request to redeem the outstanding Note in full or in part held by a Noteholder by giving to such Noteholder a redemption notice, at an amount equal to the aggregate of (i) the aggregate principal amount of the outstanding Note proposed to be redeemed; (ii) any accrued but unpaid interest for the entire first six (6) months; and (iii) all outstanding amounts (if any) payable by the Company to such Noteholder under the Transaction Documents on the tenth (10th) Business Day following the date of the redemption notice. After the first six (6) months from the issue date, in the absence of any event of default, the Company may request to redeem the outstanding Note in full, or in part, held by a Noteholder by giving to such Noteholder the early redemption note at an amount equal to the aggregate of (i) the aggregate principal amount of the outstanding Note proposed to be redeemed; (ii) any accrued but unpaid interest (including any default interest) and outstanding Administrative Fees on such outstanding Note; and (iii) all outstanding amounts (if any) payable by the Company to such Noteholder under the Transaction Documents on the date of the early redemption.
Noteholder's redemption right for events of default:	If the Noteholder elects to require the Company to redeem the Note (in whole or in part) upon the occurrence of the event of default, the Company shall redeem the outstanding Note held by the Noteholder at an amount equal to the aggregate of (i) the relevant aggregate principal amount of the outstanding Note held by such Noteholder; (ii) any accrued but unpaid interest (including any default interest) and outstanding Administrative Fees on the outstanding Note; and (iii) any outstanding amount relating to the relevant outstanding Note under the Transaction Documents.

Conditions Precedent for the Subscription

The Investor's obligations to subscribe for the Note and pay for the Note under the Subscription Agreement are conditional upon (unless waived by the Investor):

(a) the Investor having performed and completed to its satisfaction due diligence review of business, affairs, operations and financial position of the Company and the Group;

(b) the Investor having obtained and performed all necessary external, internal and corporate approvals and checks under all applicable laws regarding the Transaction Documents and the Security Documents, including but not limited to, its investment committee approval, internal policy checks, anti-money laundering checks and know-your-client checks, and such approvals remain valid and have not been revoked;

(c) subject to the payment of stamp duty, all necessary consents, regulatory filings, notifications, registrations, disclosures and/or announcement requirements and approvals of the relevant government authorities, the Stock Exchange or third party to enter into the Transaction Documents and the Security Documents and perform the Company's and the Guarantor's obligations thereunder having been made, fulfilled or obtained and such consents, filings, notifications, registrations, disclosures, announcements and approvals remaining valid and effective, and no action having been taken or initiated by any third party, governmental authority or the Stock Exchange which would prohibit the transactions contemplated under any of the Transaction Documents or any of the Security Documents;

(d) all obligations under the Transaction Documents and the Security Documents required to be performed by each of the Company and Mr. Yu on or before the closing date having been performed, and no breach of any provision of any Transaction Document or any Security Document by any of the Company or Mr. Yu;

(e) the representations and warranties in the Subscription Agreement remaining true, accurate and not misleading in each case in accordance with their terms, and as if made on such date;

(f) since the date of the Subscription Agreement, there having been, in the opinion of the Investor, no material adverse change as defined therein;

(g) since the date of the Subscription Agreement, there having been, in the opinion of the Investor, no occurrence of any material adverse event as defined therein;

(h) there having been no event of default, and no event of default would result from the proposed issue of the Note by the Company to the Investor;

(i) since the date of the Subscription Agreement and up to the closing date, the Shares remaining listed on the Main Board of the Stock Exchange and the Shares not being suspended from trading for a period of more than five (5) consecutive Trading Days on the Main Board of the Stock Exchange;

(j) the external auditors of the Company having given an unqualified opinion, and/or not having provided a specific explanation to the unqualified opinion, in the accountants' report contained in the most recently published annual report of the Company;

(k) Ludao China Investments remaining directly or indirectly holding not less than forty (40) per cent of the issued share capital of the Company, and Mr. Yu remaining as the sole legal and beneficial owner of Ludao China Investments;

(l) Mr. Yu remaining as a Director, the chairman of the Board and an executive Director;

(m) (i) the equity attributable to the Group amounts not less than RMB300,000,000 (or its equivalent in any other currency or currencies); and (ii) the asset-to-equity ratio being not more than 2.5 times;

(n) the entering into and due execution (on or before the closing date) of the Transaction Documents, each in a form satisfactory to the Investor, by the respective parties;

(o) the Charged Shares being directly owned by Prosper One, and all the Charged Shares are free and clear of all encumbrances (except the Share Charge) and any interests or claims of third parties, and Prosper One is not subject to any obligation to transfer or dispose of such Charged Shares;

(p) the total number of Charged Shares representing not less than twenty-five (25) per cent of the issued shares of Ever Clever Group Limited; and

(q) receipt by the Investor of legal opinions issued by the Investor's legal advisers in relation to (i) Hong Kong Laws, (ii) the Cayman Islands laws and (iii) the BVI laws as at the closing date each in a form satisfactory to the Investor.

Events of default under the Note Instrument

The events of default under the Note Instrument are:

(a) merger or consolidation of any member of the Group with any other person outside of the Group;

(b) the Company or the Guarantor fails to pay on the due date any amount payable, any Administrative Fees, any interest or any other amount in connection with the Note or as the case may be, any Transaction Documents;

(c) any requirements regarding general covenants and interest as contained in the Note Instrument is not satisfied;

(d) the Company or the Guarantor defaults in the performance or observance of any term of any Transaction Document which is binding on it or him or any other obligations under or in respect of the Note or any Transaction Document;

(e) any representation or statement made or deemed to be made by the Company or the Guarantor in the Transaction Documents or any other document delivered by or on behalf of any of the Company or the Guarantor under or in connection with any Transaction Document is or proves to have been incorrect or misleading in any material aspects when made or deemed to be made;

(f) (i) any financial indebtedness (as defined in the Note Instrument) of the Company and the Guarantor is not paid when due or (as the case may be) within any originally applicable grace period; (ii) any financial indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Company or the Guarantor; (iii) the Company or the Guarantor fails to pay when due any amount payable by it under any guarantee of any financial indebtedness (or its equivalent in any other currency or currencies);

(g) one or more judgment(s) or order(s) for the payment of an amount is rendered against the Company or the Guarantor or any other member of the Group;

(h) any litigation, arbitration, administrative, governmental, regulatory or other investigations, proceedings or disputes are commenced or threatened against the Company or the Guarantor or any other member of the Group or any of their respective assets (or against the Directors, the Guarantor or any other member of the Group arising from their carrying out of duties as Directors, the Guarantor or any other member of the Group);

(i) an event has occurred which is, or which may with the taking of any step or the passage of time become, an insolvency event in relation to the Company, the Guarantor or any other member of the Group;

(j) (i) at any time, any of the security (as defined in the Note Instrument) is or becomes unlawful or is not, or ceases to be legal, valid, binding or enforceable or otherwise ceases to be effective; or (ii) at any time, the Noteholder(s) cease to have a first priority security interest in the security;

(k) an order is made or an effective resolution is passed for the bankruptcy, winding up, liquidation or dissolution of the Company, the Guarantor or any other member of the Group;

(l) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Company or the Guarantor to lawfully enter into, exercise its rights and perform and comply with its obligations under and in respect of the Note or the Transaction Document; (ii) to ensure that those obligations are legal, valid, binding and enforceable; and (iii) to make the Transaction Documents admissible in evidence in the courts of the Cayman Islands, the BVI or Hong Kong is not taken, fulfilled or done;

(m) it is or will become unlawful for the Company or the Guarantor to perform or comply with any of its obligations under or in respect of the Transaction Documents;

(n) there is a breach of any applicable law (including the Listing Rules) by the Company or the Guarantor or any of the Directors or senior officers (as applicable) when acting for and on their behalf;

(o) (i) all or any part of the undertaking, assets and revenues of the Company or the Guarantor or any other member of the Group is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Company or the Guarantor or any other member of the Group is prevented by any such person from exercising normal control over all or any part of its undertaking, assets and revenues;

(p) any Shares shall cease to be listed on the Stock Exchange or steps are taken by or on behalf of the Company to effect such cessation;

(q) the Shares have not been suspended from trading for a period of more than five (5) consecutive Trading Days on the Main Board of the Stock Exchange;

(r) in the sole opinion of the Noteholder(s), a material adverse event or a material adverse change has occurred; or

(s) the Company fails to publish its annual report or interim report as required under the Listing Rules within five (5) Business Days from the date being the last day for the Company to issue its annual report or interim report.

Closing

Subject to the satisfaction of all the closing conditions or as otherwise waived, closing of the Subscription in accordance with the terms of the Subscription Agreement shall take place on the date which is five (5) Business Days after and excluding the date upon which the last of the closing condition has been satisfied or waived or on such other date and place to be mutually agreed by the Company and the Investor.

Undertakings

Pursuant to the Subscription Agreement, Mr. Yu has given to the Investor, among others, the following undertakings:

(a) he shall direct and procure that Ludao China Investments shall at all times, directly or indirectly, hold not less than forty (40) per cent of the total issued share capital of the Company and he shall at all times remain as the sole legal and beneficial owner of Ludao China Investments;

(b) he shall remain as a Director, the chairman of the Board and an executive Director; and

(c) he shall direct and procure Ludao China Investments to, and he shall, obtain prior written consent from the Investor in the event that Ludao China Investments creates any encumbrances over any Shares registered and/or otherwise held directly or indirectly in its name.

Administrative Fees

Pursuant to the Subscription Agreement, the Company is to pay to the Investor the Administrative Fees.

Personal Guarantee and Share Charge

The payment of the principal and interest (including default interest) in respect of the Note and all other moneys payable by the Company under or pursuant to the Subscription Agreement and its ancillary documents have been unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Personal Guarantee and secured by the Share Charge.

As the Guarantor is the chairman of the Board, an executive Director and a controlling Shareholder, the provision of guarantee pursuant to the Personal Guarantee constitutes a connected transaction in the form of financial assistance in favour of the Company. However, as the Personal Guarantee is not secured by any assets of the Group, and the Directors are of the view that the provision of the guarantee by the Guarantor is on normal commercial terms or better, the provision of the guarantee is fully exempted from the Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules.

REASONS FOR THE ISSUE OF THE NOTE

The Group is principally engaged in the business of research and development, manufacture and sale of aerosol and related products. Its 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 carries out clean energy business of collection and utilization of sewage source thermal energy and the centralized heat supply business.

The Board has considered various ways of raising funds to development businesses of the Group and considers that the issuance of the Note represents a suitable opportunity to raise funds having considered the recent market conditions and without any dilution effect on the shareholding of the existing Shareholders. The proceeds from the issuance of the Note will be used for (i) general working capital; (ii) investment opportunities; and (iii) settlement of expenses and Administrative Fees.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement in relation to the issue of the Note and the respective terms of the Note are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Completion of the Subscription is subject to the satisfaction of the conditions precedent under the Subscription Agreement. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions have the following meanings:

"Administrative Fees"	for the first year after the issue of the Note, one (1) per cent of the aggregate principal amount of the Note as at the issue date or, for the subsequent year(s) after the issue of the Note, one (1) per cent of the outstanding principal amount of the Note as at the relevant anniversary of the issue date, payable by the Company to the Investor
"Board"	the board of Directors
"Business Day"	means a day on which commercial banks and foreign exchange markets settle payments in Hong Kong, excluding any day in Hong Kong on which a typhoon signal number 8 or above or a "black" rainstorm warning is hoisted
"BVI"	British Virgin Islands

"Charged Shares"	2,500 shares in Ever Clever Group Limited held by Prosper One
"Company"	China Ludao Technology Company Limited (中國綠島科技有限公司), a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	director(s) of the Company for the time being
"Group"	the Company and its subsidiaries
"Guarantor"	Mr. Yu
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	party(ies) which is/are not connected person(s) of the Company and is/are independent of the Company and its connected persons
"Investor"	Cheer Hope Holdings Limited, a limited company incorporated under the laws of the BVI and an Independent Third Party
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Ludao China Investments"	Ludao China Investments Holdings Limited, a company incorporated in the BVI and a controlling Shareholder holding approximately 45.20% of the issued share capital of the Company and is legally and beneficially owned by Mr. Yu
"Maturity Date"	27 May 2020 and the Company may seek the Noteholders' prior written approval to extend the aforesaid original maturity date to a date no later than the third anniversary of the issue date of the Note
"Mr. Yu"	Mr. Yu Yuerong, the chairman of the Board and an executive Director
"Noteholder(s)"	the person(s) in whose name the Note is registered
"Note"	the 9.0% fixed guaranteed note in the principal amount of up to HK$120,000,000 due on the Maturity Date
"Note Instrument"	a separate instrument to be executed by the Company by way of a deed poll containing terms of the Note
"Personal Guarantee"	the deed of guarantee to be entered into by the Guarantor in favour of the Investor
"Prosper One"	Prosper One Development Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Company
"PRC"	the People's Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)

"Security Documents"	the Personal Guarantee, the Share Charge, and any document constituting any security granted in favour of the Investor from time to time under or in connection with the Transaction Documents or the Note
"Share Charge"	the share charge to be executed by Prosper One in favour of the Investor pursuant to which Prosper One charges, in favour of the Investor, the Charged Shares
"Shareholder(s)"	holders of the Share(s)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the Note
"Subscription Agreement"	the subscription agreement entered into among the Company, the Investor and the Guarantor dated 28 May 2018 in relation to the Subscription
"Trading Day"	means a day when the Stock Exchange is open for dealing business, provided that if no closing price is reported for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days

"Transaction Documents"	the Subscription Agreement, the Note Instrument, the Note certificate, the Security Documents and any supplemental or amendment agreements or deeds supplementing or amending such documents entered into from time to time
"%"	per cent.

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, 28 May 2018

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.