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ZHONG FA ZHAN HOLDINGS LIMITED

中發展控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 475)

CHANGE IN USE OF PROCEEDS FROM THE ISSUE OF SUBSCRIPTION SHARES

References are made to the annual report for the year ended 31 March 2016 published on 28 July 2016 (the “**Annual Report**”) by Zhong Fa Zhan Holdings Limited (the “**Company**”) and the announcements of the Company dated 2 November 2015, 24 June 2016 and 14 July 2016 (collectively, the “**Announcements**”) in relation to, among others, the net proceeds from the issue of new Shares in relation to the Suncool Subscriptions and the Investors Subscriptions (collectively, the “**Subscription Shares**”), and the announcement of the Company dated 18 December 2015 in relation to the Leased Factory (the “**Leased Factory Announcement**”).

Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Annual Report.

CHANGE IN USE OF PROCEEDS FROM THE ISSUE OF THE SUBSCRIPTION SHARES

As disclosed in the Announcements and under the section headed “Use of Proceeds from the Subscriptions” in the management discussion and analysis of the Annual Report, the Board intended to allocate the net proceeds from the issue of the Subscription Shares of approximately HK\$74.7 (the “**Net Proceeds**”) as to: (a) approximately HK\$7.6 million for the repayment of shareholder’s loan; (b) approximately HK\$50 million for the development of the solar energy business of the Group (the “**Proceeds for Development of the Solar Energy Business**”); and (c) approximately HK\$17.1 million for general working capital of the Group. As at 31 July 2016, the Company has utilized approximately HK\$31.6 million of the Net Proceeds.

In order to improve the efficiency of the use of proceeds of the Group, the Board has resolved to allocate part of the Proceeds for Development of the Solar Energy Business in the amount of approximately HK\$10 million towards the general working capital of the Group (the “**Change in Use of Proceeds**”).

In the circumstances, the Company proposes to change the allocation of the Net Proceeds to the following:

- (i) as to approximately HK\$7.6 million for the repayment of shareholder’s loan;
- (ii) as to approximately HK\$40 million for the development of the solar energy business of the Group; and
- (iii) as to approximately HK\$27.1 million for general working capital of the Company.

Details of the original allocation of the Net Proceeds, the revised allocation of the Net Proceeds, and the utilization of the Net Proceeds as at 31 July 2016 are summarized below:

Proposed use of Net Proceeds	Original allocation <i>(Approximately)</i> <i>HK\$’000</i>	Revised allocation <i>(Approximately)</i> <i>HK\$’000</i>	Utilisation as at 31 July 2016 <i>(Approximately)</i> <i>HK\$’000</i>	Remaining balance after revised allocation <i>(Approximately)</i> <i>HK\$’000</i>
Repayment of shareholder’s loan	7,600	7,600	7,600	–
Development of the solar energy business	50,000	40,000	9,000 <i>(Note 1)</i>	31,000 <i>(Note 3)</i>
General working capital	<u>17,100</u>	<u>27,100</u>	<u>15,000 <i>(Note 2)</i></u>	<u>12,100 <i>(Note 4)</i></u>
	<u>74,700</u>	<u>74,700</u>	<u>31,600</u>	<u>43,100</u>

Note 1: As at 31 July 2016, approximately HK\$9 million was used for the development of solar energy business in the PRC, including approximately HK\$4 million for factory rental deposit, approximately HK\$2 million for staff training cost and technical knowledge transfer and supporting service fee paid to Suncool AB according to the License Agreement and approximately HK\$3 million for general working capital of solar energy business.

Note 2: As at 31 July 2016, approximately HK\$15 million was used for the general working capital of the existing businesses of the Group, including approximately HK\$8 million for staff cost and office rent and approximately HK\$7 million for other recurring operating expenses.

Note 3: In respect of the remaining unutilized proceeds, the Company intends to apply approximately HK\$31 million for developing the solar energy business, including approximately HK\$18 million for acquiring fixed assets, including machinery, equipment and fixture, approximately HK\$3 million for staff training cost and technical knowledge transfer and supporting service fee paid to Suncool AB according to the License Agreement, approximately HK\$2 million for research and development and approximately HK\$8 million for general working capital requirements for about one year after the commencement of production, including purchase of inventories and other recurring operating expenses.

Note 4: The Company intends to apply approximately HK\$12.1 million for general working capital of the Group for the coming year, including salary and wages, office rent, and other recurring operating expenses.

REASONS FOR THE CHANGE IN USE OF PROCEEDS FROM THE ISSUE OF THE SUBSCRIPTION SHARES

As disclosed in the Leased Factory Announcement, the construction of the Leased Factory by CECEP Yuyao which is to be used as the production plant for the Group's solar energy business was expected to be completed in year 2016. The factory rent is payable upon completion of the construction of the Leased Factory and delivery of vacant possession of the same to the Group. However, the Company was informed by CECEP Yuyao that due to the delay in construction by CECEP Yuyao, the Leased Factory is currently expected to be completed in year 2017 and the development of the solar energy business of the Group is expected to be prolonged. Accordingly, the Board is of the view that the upfront expenses including factory rent, leasehold improvement and other related general operating expenses are not as significant as expected due to the delay in the commencement of the operation of the Leased Factory.

For the time being before the full scale production begins, the Group intends to rent the production lines located at Yuyao for a short period of term as its temporary production plant. The Group intends to deploy such temporary production plant to consolidate the techniques in developing the solar energy business and conduct a trial sale to start selling cooling stored pipes to target customers.

In light of the above, the Board considers that the immediate capital requirement for developing the solar energy business at the current stage is not as significant as expected. Accordingly, in order to better allocate and to improve the efficiency of the use of the Net Proceeds from the issue of the Subscription Shares, the Board has resolved to allocate HK\$10 million out of the Proceeds for Development of the Solar Energy Business towards the general working capital of the Group for the coming year by paying for salary and wages, office rent, and other recurring operating expenses.

Save for the Change in Use of Proceeds as disclosed above, the Company intends to apply the remaining Net Proceeds as originally intended. The Company considers that the Change in Use of Proceeds is fair and reasonable as this would allow the Company to deploy its financial resources more effectively to enhance operational and financial efficiency of the Group and is therefore in the interests of the Group and the Shareholders as a whole.

By Order of the Board
Zhong Fa Zhan Holdings Limited
Chow Chi Shing
Company Secretary

Hong Kong, 12 September 2016

As at the date of this notice, the Board consists of five executive Directors, namely Mr. Wu Hao, Mr. Hu Yangjun, Mr. Hu Yishi, Mr. Chan Wing Yuen, Hubert and Ms. Kwong Wai Man, Karina; a non-executive Director, namely Mr. Li Wei Qi, Jacky; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha.