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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The board (the "Board") of directors (the "Directors") of Zhong Fa Zhan Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2018 which have been reviewed by the Company's audit committee and external auditor, together with the comparative figures for the corresponding previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

		Six months ended 30 September	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue from goods	3	**35,613**	10,409
Cost of sales		**(34,154)**	(9,989)
Gross profit		**1,459**	420
Other income		**485**	461
Other gains and losses, net		**634**	(621)
Selling and distribution costs		**(468)**	(135)
Administrative expenses		**(9,639)**	(10,101)
Impairment loss recognised on trade receivables	9	**(561)**	–
Equity-settled share-based payment		**(4,601)**	(1,945)
Finance costs		**(357)**	–

	NOTES	Six months ended 30 September **2018** *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)
Loss before taxation		**(13,048)**	(11,921)
Income tax	5	**–**	–
Loss for the period	6	**(13,048)**	(11,921)
Other comprehensive (expense) income for the period			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(2,621)**	1,357
Total comprehensive expense for the period		**(15,669)**	(10,564)
Loss for the period attributable to:			
– Owners of the Company		**(12,783)**	(11,921)
– Non-controlling interests		**(265)**	–
		(13,048)	(11,921)
Total comprehensive expense attributable to:			
– Owners of the Company		**(15,413)**	(10,564)
– Non-controlling interests		**(256)**	–
		(15,669)	(10,564)
Loss per share	7		
Basic and diluted (HK cents)		**(3.87)**	(3.61)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2018

	NOTES	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**11,506**	13,540
Deposits paid for acquisition of property, plant and equipment		**11,364**	–
Rental deposits		**237**	237
		23,107	13,777
Current assets			
Inventories		**1,008**	1,158
Trade receivables	9	**15,513**	2,229
Other receivables, deposits and prepayments		**10,139**	6,885
Structured deposits		**–**	21,217
Bank balances and cash		**50,587**	58,211
		77,247	89,700
Current liabilities			
Trade payables	10	**9,658**	2,139
Other payables and accruals		**3,981**	2,889
Loans from a controlling shareholder		**54,026**	71,518
		67,665	76,546
Net current assets		**9,582**	13,154
Total assets less current liabilities		**32,689**	26,931
Non-current liabilities			
Loans from a controlling shareholder		**15,172**	–
		17,517	26,931
Capital and reserves			
Share capital	11	**3,301**	3,301
Reserves		**14,472**	23,630
Equity attributable to owners of the Company		**17,773**	26,931
Non-controlling interests		**(256)**	–
		17,517	26,931

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than change in accounting policies resulting from application of new and amendments and interpretation to Hong Kong Financial Reporting Standard ("HKFRS"), the accounting policies and methods of computation used in the preparation of condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those applied in the preparation of the Group's annual financial statements for year ended 31 March 2018.

Application of new and amendments and interpretation of HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments and interpretations to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs *2014 – 2016 Cycle*
Amendments to HKAS 40	Transfer of Investment Property

2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the wholesale of jewelry products and manufacturing and trading of solar energy products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provision in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed as at 1 April 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no significant impact on the timing and amounts of revenue recognised in the current interim period and accumulated losses as at 1 April 2018.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

During the six months ended 30 September 2018, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 at the date of initial application, 1 April 2018:

	Structured deposits classified as loans and receivables at amortised cost	**Financial assets at FVTPL required by HKFRS 9**
	HK$'000	*HK$'000*
Closing balance as at 31 March 2018 – HKAS 39	21,217	–
Effects arising from initial application of HKFRS 9		
Reclassification:		
From loans and receivables	(21,217)	21,217
Opening balance at 1 April 2018 – HKFRS 9	–	21,217

Except as described above, the application of other amendments to HKFRSs has had no material effect on the amounts reported and/or disclosures for the preparation of the Group's condensed consolidated financial statements.

3. REVENUE FROM GOODS

Disaggregation of revenue

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Types of goods		
Sales of jewelry products	**23,877**	10,007
Sales of solar energy products	**11,736**	402
Total	**35,613**	10,409

4. SEGMENT INFORMATION

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

For six months period ended 30 September 2018 (unaudited)

	Jewelry wholesale business *HK$'000*	**Solar energy business** *HK$'000*	**Total** *HK$'000*
Revenue	**23,877**	**11,736**	**35,613**
Segment loss	**(4,539)**	**(4,869)**	**(9,408)**
Unallocated corporate income			**1,119**
Unallocated corporate expenses			**(4,402)**
Finance costs			**(357)**
Loss before taxation			**(13,048)**

For six months period ended 30 September 2017 (unaudited)

	Jewelry wholesale business *HK$'000*	Solar energy business *HK$'000*	Total *HK$'000*
Revenue	10,007	402	10,409
Segment loss	(167)	(4,467)	(4,634)
Unallocated corporate income			364
Unallocated corporate expenses			(7,651)
Loss before taxation			(11,921)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during both periods.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Jewelry wholesale business	**5,521**	2,915
Solar energy business	**36,618**	13,093
Total segment assets	**42,139**	16,008
Structured deposits	**–**	21,217
Bank balances and cash	**50,587**	58,211
Other unallocated assets	**7,628**	8,041
Consolidated assets	**100,354**	103,477
Jewelry wholesale business	**6,652**	2,181
Solar energy business	**3,506**	2,136
Total segment liabilities	**10,158**	4,317
Loans from a controlling shareholder	**69,198**	71,518
Other unallocated liabilities	**3,481**	711
Consolidated liabilities	**82,837**	76,546

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than certain property, plant and equipment, certain other receivables, deposits and prepayments, structured deposits and bank balances and cash.

- all liabilities are allocated to reportable segments other than certain other payables and accruals and loans from a controlling shareholder.

Geographical Information

The Group's operations are currently carried out in the People's Republic of China (the "PRC"), the country of domicile, and Hong Kong.

All the revenue of the Group were derived from external customers of jewelry wholesale business located in the PRC and Hong Kong (six months ended 30 September 2017: in the PRC and Hong Kong) and from external customers of solar energy business located in the PRC and Hong Kong (six months ended 30 September 2017: in the PRC excluding Hong Kong).

The Group's revenue from external customers based on the location of customers are set out below:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The PRC	**20,423**	8,531
Hong Kong	**15,190**	1,878
	35,613	10,409

Information about the Group's non-current assets based on the geographical location of the assets is set out below:

	At 30 September 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
The PRC	**22,807**	13,342
Hong Kong	**63**	198
	22,870	13,540

Note: Non-current assets excluded rental deposits.

5. INCOME TAX

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising from Hong Kong for both periods.

Under the law of the PRC on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate applied to the PRC subsidiaries is 25%. No provision for PRC Enterprise Income Tax had been made for the Group's PRC subsidiaries as they had no estimated assessable profits for both periods.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Cost of inventories recognised as expense	**34,154**	9,989
Depreciation of property, plant and equipment	**1,069**	314
Staff cost (including directors' remuneration)	**6,617**	5,374
Interest income from bank balances	**(404)**	(287)
Interest income from structured deposits	**(79)**	–

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The Group's loss for the period attributable to owners of the Company for the purposes of calculating basic and diluted loss per share	**(12,783)**	(11,921)
	'000	*'000*
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	**330,054**	330,054

The computation of diluted loss per share for both periods does not assume the exercise of share options and warrants as exercise of these instruments would result in a decrease in loss per share.

8. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the current interim period (2017: nil).

9. TRADE RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Trade receivables	**16,074**	2,229
Less: Allowance for impairment	**(561)**	–
	15,513	2,229

The following is an ageing analysis of trade receivables, net of allowance for impairment, presented based on the invoice date at the end of the reporting period, which approximated the revenue recognition dates:

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Within 1 month	**14,565**	1,575
Over 1 month but within 3 months	**948**	654
	15,513	2,229

10. TRADE AND OTHER PAYABLES AND ACCRUALS

Trade payables

The following is an ageing analysis of trade payables, presented based on the invoice date at the end of the reporting period:

	At 30 September 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 1 month	**8,661**	1,495
Over 1 month but within 3 months	**995**	642
Over 3 months but within 6 months	**–**	2
Over 6 months	**2**	–
	9,658	2,139

11. SHARE CAPITAL

	Number of shares	**Amount**
	'000	*HK$'000*
Ordinary shares with nominal value of HK$0.01 each		
Authorised:		
At 31 March 2018 and 30 September 2018	10,000,000	100,000
Issued and fully paid:		
At 31 March 2018 (audited) and 30 September 2018 (unaudited)	330,054	3,301

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 September 2018 (the "Current Period"), the Group has been principally focusing on its jewelry wholesale business and the development of the solar energy business.

Jewelry Business

The jewelry business remains as one of the principal business of the Group. For the Current Period, revenue of the jewelry business mainly was derived from the PRC and Hong Kong. China's overall economy maintained a reasonable pace of growth during the third quarter of 2018 and the environment remained stable as a whole. The purchasing power of customers in Hong Kong remained solid and the demand for jewelry products kept increasing.

For the Current Period, segment revenue from the jewelry business amounted to approximately HK$23.9 million, representing a significant increase of approximately 138.6% as compared to approximately HK$10.0 million for the six months ended 30 September 2017 (the "Previous Period"). Such increase in segment revenue was mainly attributable to increasing orders placed during the Current Period by those customers who started the cooperation since last year, as well as the jewelry market in the PRC remained favourable. The Group secured supply stability and controlled its purchasing costs through its long-term supply network, so as to satisfy the various needs of its customers. As the overall consumption environment in the PRC and Hong Kong has fully recovered in the last year, the number of sales orders from our customers has increased accordingly, especially Hong Kong's jewelry market, in which the demand remained strong and the market players were actively developing their procurement networks with an aim of satisfying the increasing demands. In view of this, the jewelry business division of the Group has recruited more staff during the Current Period so as to ensure good and effective communications with its customers and attentive procurement. As such, our customers of the jewelry business in Hong Kong have built more confidence in us, and increased their purchases from the Group during the Current Period. In light of the foregoing, the Group has enhanced its sales and procurement networks for its jewelry business in Hong Kong. For the Current Period, segment sales from the jewelry business in Hong Kong accounted for approximately 44.7% of the whole segment sales for the period, which was significantly increased from approximately 18.8% for the corresponding period. Meanwhile, our elite team of sales staff and business consultants have participated in several jewelry exhibitions during the Current Period, including various regional and international jewelry exhibitions held in Hong Kong, Shenzhen, Beijing and Shanghai, to explore business opportunities with new customers and suppliers.

In addition to the offline sales, the Group is actively considering to expand into the e-commerce sector and has entered into negotiations with an e-commerce operations solution provider during the Current Period to develop strategic partnership. We are expected to establish online fashion jewelry stores with the assistance and consultation of the potential business partner. We are also currently negotiating for regional sales agency with several fashion jewelry brands from South Korea and other countries, and which those fashion jewelry brand products could be sold online by the potential business partner as a new sales channel of the Group.

Solar Energy Business

It is stated in the "13th Five-Year Plan for Energy Development" formulated by China that the nationwide target on installed capacity of solar power generation shall surpass 110 million kilowatts by 2020. Both the central and local governments had formulated various supportive policies, including, among others, tax incentives and subsidies, to facilitate the steady growth in the solar energy industry.

The Group principally engages in the solar energy business, including provision of patented thermal solar energy collectors for solar energy saving and environmental protection solutions as well as research and development and sale of products of the solar photovoltaic systems. For the Current Period, segment revenue from the solar energy business of the Group increased significantly to approximately HK$11.7 million from HK$0.4 million for the Previous Period. Such increase in segment revenue was mainly attributable to the revenue contributed by the completion of sale of photovoltaic component systems and production and sale of patented cooling-stored pipes thermal collector products during the Current Period. The Group has been proactively developing its solar energy business in the past years. We first obtained a 15-year patent on thermal solar energy collector proprietary technology granted by a Swedish leading energy saving technology research and development company in 2015, through which the Group entered into the solar energy market, then during the Current Period, we further partnered with a global new energy system integration provider to provide photovoltaic component systems to their projects home and abroad. With such partnership, we may enhance our intrinsic advantages and expand into overseas markets.

During the Current Period, the Group's solar energy team continued to expand and actively participated in a number of exhibitions at home and abroad to pursue opportunities to co-operate with players in the solar energy industry from different regions, with an aim to enhance the Group's market position and establish a sale network. As such, through co-operation, the Group and the business partners leverage on each other's strengths and resources to jointly develop overseas markets, and to diversify the customer base and product portfolio of the solar energy business. As of the date of this announcement, the Group has completed the sale of 100 sets of patented thermal collectors and commenced the production of 1,000 sets of patented thermal collectors order received during the Current Period. Meanwhile, the Group has entered into contracts of photovoltaic components sales with new customers during the Current Period. Such sales have already commenced and is expected to complete within the year.

Acquisition of Yuyao Land Parcel and Yuyao Factory

After obtaining the licence to use the patent, in December 2015, the Company, Ningbo Shenggu Energy Reservation Technology Co., Ltd.* (寧波升谷節能科技有限公司) ("Ningbo Shenggu"), a wholly-owned subsidiary of the Company, and CECEP (Yuyao) Low Carbon Technology Development Co., Ltd.* (中節能(余姚)低碳技術開發有限公司) ("CECEP Yuyao") entered into a framework tenancy agreement (the "Framework Tenancy Agreement"), pursuant to which CECEP Yuyao was responsible for constructing a factory (the "Yuyao Factory") according to the Company's requirements on a parcel of land held by CECEP Yuyao of a site area of approximately 49,000 square metres located on the north side of Binhai Avenue, the Binhai New Area, Yuyao, Zhejiang Province, the PRC ("the Yuyao Land Parcel"), and lease the same to the Group.

To enable the Group to cope with its future development while at the same time saving rental costs of the factory in the long run, on 13 November 2017, the Company, Ningbo Shenggu and CECEP Yuyao entered into a memorandum of understanding (the "MOU") in relation to the proposed acquisition of the Yuyao Land Parcel and the Yuyao Factory. The MOU also granted exclusive rights to the Group to use the Yuyao Factory free-of-charge. The gross floor area of the Yuyao Factory is approximately 27,500 square metres. For the MOU, the Group has also agreed to use the paid deposit amounting to approximately RMB3.8 million pursuant to the Framework Tenancy Agreement entered into with CECEP Yuyao on 18 December 2015 as the refundable deposit (the "Security Deposit") for ensuring the Group in compliance with the terms and reserving as compensation for any damages on the facilities and equipment when using the Yuyao Factory free-of-charge. Please refer to the announcement of the Company dated 13 November 2017 for details.

On 24 April 2018, the Company, Ningbo Shenggu and CECEP Yuyao entered into a conditional sale and purchase agreement (the "SPA"), pursuant to which Ningbo Shenggu has conditionally agreed to purchase by itself or any wholly-owned subsidiary of the Company established in the PRC, and CECEP Yuyao has conditionally agreed to sell the Yuyao Land Parcel and the Yuyao Factory, at an aggregate consideration of RMB59.2 million, subject to adjustment. Further, pursuant to the SPA, the outstanding consideration payable after the completion shall be set off against the Security Deposit. Mr. Li Wei Qi, Jacky, a non-executive Director, is also one of the directors of CECEP Yuyao. As Mr. Hu Yishi, the Company's controlling shareholder, is the indirect beneficial owner of approximately 34.5% in the registered capital of CECEP Yuyao, the acquisition of the Yuyao Land Parcel and the Yuyao Factory constitutes a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. The acquisition of the Yuyao Land Parcel and the Yuyao Factory is subject to the reporting, announcement and the Company's independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 24 April 2018, 28 September 2018 and 4 October 2018 and the circular dated 24 August 2018 for details. The SPA and the transactions contemplated thereunder have been approved at the extraordinary general meeting held on 20 September 2018, please refer to the announcement of the Company dated 20 September 2018. As at the date of this announcement, having considered that the Company, Ningbo Shenggu and CECEP Yuyao have used their best endeavours to complete the SPA and the current progress informed by CECEP Yuyao, the Directors are of the view that the SPA is expected to be completed on or before 30 November 2018. Relevant announcement will be published accordingly.

OUTLOOK AND PROSPECTS

Jewelry business

Looking ahead, the Group will continue to develop its jewelry business both in Hong Kong and the PRC with more resources to be allocated to sales and marketing of jewelry business, so as to develop more flexible and successful sales strategies, further enhance its customer services and capture more opportunities for business co-operation through participation in jewelry trade fairs and exhibitions in various regions. Also, the Group believes that the potential e-commerce shall enhance our sales channels, raising the Group's profile and strengthening the sustainable development of its jewelry business in a long run.

Solar Energy Business

During the year, the Group will launch various pilot projects of solar cooling proprietary technology products and solutions, including the pilot project at the high-end hotel Naked Retreats in Mount Mogan, Zhejiang Province, which is expected to complete within this year. Further, the Group will continue its co-operation with business partners to enhance the sale of products such as the components of solar photovoltaic component systems, and to materialise the product and solution diversification of solar energy business.

The Group will continue to allocate more resources for the development of its solar energy business, including strengthen the research and development and innovation with an aim of achieving self-owned intellectual property rights and enhancing the Company's core competitiveness. We will also participate in more trade fairs and exhibitions in different regions, proactively establish a global sale network, purchase new production facilities and recruit additional research and development, sales, procurement and production staff. The Group is currently under negotiation with its business partners in respect of the grant of patented technologies with an aim of materialising diversification of product portfolios. As one of the most important renewable energy sources, solar energy sees a great development potential in the future once it has been widely adopted, and the Group remains optimistic towards the prospect of its solar energy business.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the Current Period was HK$35.6 million (2017: HK$10.4 million), representing an increase of approximately 242.1% as compared to that for the Previous Period. The increase was due to an increase in the revenue of both jewelry business and solar energy business.

Revenue of the jewelry business increased by approximately 138.6% from approximately HK$10.0 million for the Previous Period to approximately HK$23.9 million for the Current Period due to the steady growth of the PRC's domestic consumption and spending and strengthened business relationships with customers in Hong Kong.

Revenue of the solar energy business increased by approximately 28.2 times from approximately HK$0.4 million for the Previous Period to approximately HK$11.7 million for the Current Period due to the contribution of revenue derived from the sales of integrated heating and cooling products using thermal solar collectors and solar photovoltaic components.

Gross profit

Gross profit increased from approximately HK$0.4 million for the Previous Period to approximately HK$1.5 million for the Current Period, representing an increase of approximately 247.4%. Meanwhile, gross profit margin increased from 4.0% for the Previous Period to 4.1% for the Current Period, which was mainly resulted from the improving market atmosphere of jewelry business between the periods.

Other income

Other income increased from approximately HK$461,000 for the Previous Period to approximately HK$485,000 for the Current Period, representing an increase of approximately 5.2%, which was mainly attributable to the interest income received from bank structured deposits matured during April 2018 while nil in the Previous Period.

Other gains and losses, net

The Group recorded other net gain of approximately HK$0.6 million for the Current Period (2017: other net loss of approximately HK$0.6 million), which was mainly attributable to the net foreign exchange gain during the Current Period.

Selling and distribution costs and Administrative expenses

Selling and distribution costs and administrative expenses decreased from approximately HK$10.2 million for the Previous Period to approximately HK$10.1 million for the Current Period, representing a decrease of approximately 1.3%. It was the net result of decrease in general administrative expenses of the head office, decrease in directors' remuneration because of the resignation of directors between the periods and the increase in sales staff cost. The Group will continue to take all necessary measures to control the cost to improve profitability in the future.

Equity-settled share-based payment

Equity-settled share-based payment increased by 136.6% from approximately HK$1.9 million for the Previous Period to approximately HK$4.6 million for the Current Period mainly due to the share options granted by the Company pursuant to the share options scheme adopted on 9 September 2016 during the Current Period.

Finance cost

Finance cost represented the imputed interest derived from the long term loans from a controlling shareholder amounting to HK$357,000 for the Current Period (2017: Nil).

Non-controlling Interests

Non-controlling interests recorded a loss of HK$265,000 for the Current Period (2017: Nil). This was mainly attributable to the set up cost incurred by newly established non-wholly owned subsidiaries in the PRC.

Loss and Total Comprehensive expense attributable to the Owners of the Company

As a result of the foregoing, loss and total comprehensive expense attributable to the owners of the Company for the Current Period increased from approximately HK$11.9 million for the Previous Period to approximately HK$12.8 million for the Current Period, representing an increase of approximately 7.2%. Basic loss per share were 3.9 HK cents (2017: 3.6 HK cents).

Liquidity, Financial Resources and Capital Structure

As at 30 September 2018, the Group had net current assets and current ratio stood at HK$9.6 million and 1.1 respectively (31 March 2018: HK$13.2 million and 1.2 respectively). The Group's gearing ratio as at 30 September 2018 was nil (31 March 2017: Nil) (total interest bearing borrowings divided by bank balance and cash as a percentage of total equity).

As at 30 September 2018, the inventories amounted to HK$1.0 million (31 March 2018: HK$1.2 million), mainly representing the goods-in-transit of solar cooling-stored pipes of the Group's solar energy business. As at 30 September 2018, the net trade receivable and trade payable amounted to HK$15.5 million and HK$9.7 million respectively (31 March 2018: HK$2.2 million and HK$2.1 million respectively), both of which were derived from both jewelry business and solar energy business. As at 30 September 2018, the bank balances and cash amounted to HK$50.6 million (31 March 2018: HK$58.2 million).

As at 30 September 2018, the Group had no structured deposits (31 March 2018: HK$21.2 million). The Group entered structured deposits with commercial banks in the PRC as part of the Group's treasury activities to maximise the use of its funds. The structured deposits entered were principal-protected products with a relatively short term of maturity which were considered to be akin to placing deposits with banks whilst enabling the Group to earn a relatively higher rate of return. For details regarding the subscriptions of structured deposits, please refer to the announcement and the circular of the Company dated 12 June 2018 and 16 July 2018 respectively.

As at 30 September 2018 and 31 March 2018, the Group had no bank borrowings. As at 30 September 2018 and 31 March 2018, the Group had no banking facilities and none of the Group's assets were pledged to banks to secure any banking facilities. The Group financed its liquidity operations requirements through cash flow generated from operations, short term and long term loans from a controlling shareholder and proceeds from the issue of new shares in year 2015.

Use of Proceeds from the Subscriptions

On 1 July 2015, the Group entered into a subscription agreement (the "Suncool Subscriptions") with Suncool AB, a Swedish company, to allot and issue 6,000,000 new shares of the Company to Suncool AB at the subscription price of HK$2.10 per share. Warrants were also granted to Suncool AB for subscribing to an aggregate of 24,000,000 new shares of the Company at the exercise price of HK$2.50 per warrant share (the "Warrants"). The Group also signed subscription agreements ("Investors Subscriptions", together with the Suncool Subscriptions, the "Subscriptions") with six independent investors to allot and issue an aggregate of 36,000,000 new shares of the Company to the six independent investors at the subscription price of HK$2.10 per share. As at 2 November 2015, the Group had completed the Subscriptions for a total of 36,000,000 shares, which generated total gross proceeds of approximately HK$75.6 million and net proceeds (which represent the total gross proceeds less relevant expenses, the "Net Proceeds") of approximately HK$74.7 million after deducting related expenses payable by the Company. For details regarding the Subscriptions, please refer to the Company's announcement dated 5 July 2015 and the circular dated 13 August 2015.

As disclosed in the announcements dated 12 September 2016, the Group was informed by CECEP Yuyao that the construction of the Yuyao Factory has been delayed and therefore the development of solar energy business of the Group is prolonged. Accordingly, the Group considered that the upfront expenses including factory rent, leasehold improvement and other related general operating expenses were not significant as expected because of the delay in the occupation of the Yuyao Factory, hence the use of proceeds has been changed and part of the proceeds intended to be used for the development of solar energy business in the amount of approximately HK$10 million has been allocated towards the general working capital of the Group.

In the circumstances, the 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 30 September 2018 are as below:

Proposed use of Net Proceeds	Original allocation *(Approximately)* *HK$'000*	Revised allocation *(Approximately)* *HK$'000*	Utilisation as at 30 September 2018 *(Approximately)* *HK$'000*	Remaining balance after revised allocation *(Approximately)* *HK$'000*
Repayment of shareholder's loan	7,600	7,600	7,600	–
Development of solar energy business	50,000	40,000	32,400 *(Note 1)*	7,600 *(Note 3)*
General working capital	17,100	27,100	27,100 *(Note 2)*	–
	74,700	74,700	67,100	7,600

Note 1: As at 30 September 2018, approximately HK$32.4 million was used for the development of solar energy business, including approximately HK$4.7 million as the Security Deposit, approximately HK$11.4 million as prepayment for acquiring the Yuyao Land Parcel and the Yuyao Factory, approximately HK$1.3 million for acquiring other fixed assets including machineries, equipment and tools used in production, approximately HK$4.0 million for staff training costs, technical knowledge transfer and supporting service fees paid to Suncool AB, approximately HK$0.4 million for research and development activities and approximately HK$10.6 million for working capital of solar energy business including staff cost of HK$4.5 million.

Note 2: As at 30 September 2018, approximately HK$27.1 million was used as the general working capital of the existing businesses of the Group, including staff costs, office rent, legal and professional expenses and other recurring operating expenses.

Note 3: In respect of the remaining unutilized proceeds, the Company intends to apply approximately HK$7.6 million for developing the solar energy business. The Company targets to use approximately HK$4.9 million towards acquiring fixed assets. Approximately HK$1.3 million will be used for staff training costs, technical knowledge transfer and supporting service fees. Approximately HK$1.4 million will be used for supporting the research and development activities with a focus on the solar energy techniques to continuously strengthen the Company's products.

As at 30 September 2018, all Warrants had expired and none of the Warrants had been exercised. Since the general working capital requirement of the Group is currently financing by the operations and shareholder's loan, the Director will proactively monitor the needs of working capital and will introduce suitable measures to raise funds to replenish the general working capital as and when appropriate. For the avoidance of doubt, no specific plans have been determined at this stage.

Charges on Group Assets

As at 30 September 2018 and 31 March 2018, the Group did not have any charges on the Group's assets.

Commitments and Contingent Liabilities

As at 30 September 2018, the Group had HK$6.7 million of operating lease commitments (31 March 2018: HK$7.6 million). As at 30 September 2018, the capital commitments of the Group are related to the Acquisition of the Yuyao Land Parcel and the Yuyao Factory of approximately HK$51.6 million (31 March 2018: Nil).

As at 30 September 2018, the Group did not have any significant contingent liabilities (31 March 2018: Nil).

Human Resources

As at 30 September 2018, the Group had a total of approximately 44 employees (31 March 2018: 34). The Group remunerates its employees based on their performance and work experience and prevailing market rates. Salaries of employees are maintained at competitive levels while bonuses are granted by reference to the performance of the Group and individual employees.

The Group also provides internal training to employees when necessary and other staff benefits including share option scheme and corporate contribution to the statutory mandatory provident fund scheme for employees in Hong Kong and the statutory central pension schemes for employees in the PRC.

Foreign Exchange Fluctuation and Hedges

The business operations of the Group's subsidiaries were conducted mainly in the PRC with sales and purchase of the Group's subsidiaries denominated mainly in Renminbi. The Group's cash and bank deposits were denominated some in Hong Kong dollars, with some denominated in Renminbi. Any significant exchange rate fluctuation of Hong Kong dollars against Renminbi may have a financial impact on the Group. While the Group would closely monitor the volatility of the Renminbi exchange rate, the Directors considered that the Group's current risk exposure to foreign exchange rate fluctuation remained minimal currently.

As at 30 September 2018 and 31 March 2018, no forward foreign currency contracts are designated in hedging accounting relationships.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Save as disclosed in the section headed "Business Review" in relation to the Acquisition of the Yuyao Land Parcel and the Yuyao Factory, there had been no significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures during the Current Period.

Future Plans for Material Investments or Capital Assets

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets.

Events after the Reporting Period

On 19 October 2018, the Group granted a total of 32,520,000 share options to subscribe for up to a total of 32,520,000 ordinary shares of the Company to directors of the Company and employees and consultants of the Group.

Save as disclosed above and in the section headed "Business Review" in relation to the Acquisition of Yuyao Land Parcel and Yuyao Factory, the Group had no material event after 30 September 2018.

Dividend

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 September 2018 (2017: Nil).

Non-Compliance with Rules 3.10(1) and 3.21 of the Listing Rules

Pursuant to Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. Following the retirement of Ms. Kwok Pui Ha as an independent non-executive Director and a member of the audit committee of the Company (the "Audit Committee") with effect from 6 September 2018, the number of independent non-executive Directors fell below the minimum number of three as required under Rule 3.10(1) of the Listing Rules, and the number of members of the audit committee of the Company fell below the minimum number prescribed under Rule 3.21 of the Listing Rules. As Ms. Sun, Ivy Connie was subsequently appointed as an independent non-executive Director, as well as, among others, a member of the Audit Committee, on 23 November 2018, the Company has three independent non-executive Directors and three audit committee members. As a result, the composition of the Board and the Audit Committee meet with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules respectively.

Update on Directors' Information under Rule 13.51B(1) of the Listing Rules

Upon specific enquiry by the Company and confirmations from the Directors, the changes in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published annual reports are set out below:

Ms. Kwok Pui Ha retired as an independent non-executive director of the Company at the annual general meeting of the Company held on 6 September 2018 (the "AGM") and, as such, ceased to be a member of each of the Audit Committee and the nomination committee of the Company (the "Nomination Committee") with effect from the conclusion of the AGM. Please refer to the announcement of the Company dated 6 September 2018.

Mr. Wu Chi Keung, an independent non-executive Director, resigned as an independent non-executive director of Yuan Sheng Tai Dairy Farm Limited (Stock Code: 1431, which shares are listed on the Stock Exchange) with effect from 28 September 2018.

Ms. Sun, Ivy Connie was appointed as independent non-executive Director and members of each of the Audit Committee and the Nomination Committee with effect from 23 November 2018. Please refer to the announcement of the Company dated 23 November 2018.

Corporate Governance Practices

The Board and the management of the Company are committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize effective internal control, accountability and transparency of the Board and are adopted in the best interest of the Company and its shareholders.

Accordingly, the Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company has applied the principles and complied with all the applicable code provisions set out in the CG Code throughout the six months ended 30 September 2018 except for the deviation from code provision A.5.1, A.6.7 and E.1.2 as explained below.

Code provision A.5.1

Under code provision A.5.1, the number of independent non-executive Directors shall represent the majority of the nomination committee. During the period between 6 September 2018 and 23 November 2018, due to the retirement of an independent non-executive Director, namely Ms. Kwok Pui Ha, who was also then a member of the Nomination Committee, with effect on 6 September 2018, the Nomination Committee then only consisted of one executive Director and one independent non-executive Director. As Ms. Sun, Ivy Connie was subsequently appointed as an independent non-executive Director, as well as, among others, a member of the Nomination Committee, on 23 November 2018 in order to replace the vacancy, such deviation from CG Code provision A.5.1 was rectified.

The Group also has an internal control system to perform the checks and balance function. There were also two independent non-executive Directors offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place to enable the Company to make and implement decisions promptly and effectively.

Code provision A.6.7

Under code provision A.6.7, independent non-executive Directors and non-executive Director should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. Mr. Jin Qingjun, an independent non-executive Director, was unable to attend both the AGM and the extraordinary general meeting of the Company held on 20 September 2018 (the "EGM") due to other work commitments, and Mr. Li Wei Qi, Jacky, a non-executive Director, was unable to attend the EGM due to sickness.

Code Provisions E.1.2

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other urgent business commitment which, Mr. Wu Hao, chairman of the Board, must attend, Mr. Wu was not present at both the AGM and EGM. Both meetings were chaired by Mr. Chan Wing Yuen, Hubert, an executive Director and the chief executive officer of the Company, to ensure effective communication with the shareholders thereat.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2018.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the six months ended 30 September 2018.

Review by Audit Committee and Independent External Auditor

The Company has established the Audit Committee with written terms of reference in compliance with the code provisions under the Code set out in Appendix 14 to the Listing Rules. As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors. The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management about the internal control and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 September 2018. The Group's external auditor, Deloitte Touche Tohmatsu, has been appointed to review the interim financial information. On the basis of their review, they are not aware of any material modifications that should be made to the interim financial information for the six months ended 30 September 2018.

By order of the Board
ZHONG FA ZHAN HOLDINGS LIMITED
Chan Wing Yuen, Hubert
Chief Executive & Executive Director

Hong Kong, 28 November 2018

As at the date of this announcement, the Board consists of three executive Directors, namely Mr. Wu Hao, Mr. Hu Yangjun and Mr. Chan Wing Yuen, Hubert; a non-executive Director, namely Mr. Li Wei Qi, Jacky; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Jin Qingjun and Ms. Sun, Ivy Connie.

* *for identification purpose only*