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LOTUS HORIZON HOLDINGS LIMITED

智中國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6063)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus of Lotus Horizon Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 March 2020 (the “**Prospectus**”) in relation to the proposed use of the net proceeds from the Share Offer (the “**Net Proceeds**”) for the Listing of securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the Company’s announcement of offer price and allotment results dated 14 April 2020 and the announcement of profit warning dated 23 October 2020. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the Prospectus.

USE OF PROCEEDS

The Net Proceeds, after deducting the underwriting commissions and expenses payable by the Company in relation to the Share Offer, were approximately HK\$78.2 million. As disclosed in the section headed “Reasons for the Listing and Proposed Use of the Net Proceeds from the Share Offer” in the Prospectus, the Net Proceeds were originally intended to be applied by the Group for the following purposes:

- (i) HK\$45.2 million, representing 57.8% of the amount of the net proceeds from the Share Offer, was intended to be used for the funding of the Upfront Costs to be incurred after the Listing Date for the Awarded UOP Projects;
- (ii) HK\$8.8 million, representing 11.2% of the amount of the net proceeds from the Share Offer, was intended to be used as collateral for the Performance Bonds that would be required to be issued for the Awarded UOP Projects;
- (iii) HK\$11.7 million, representing 15.0% of the amount of the net proceeds from the Share Offer, was intended to be used for strengthening our teams of professional staff in Hong Kong;
- (iv) HK\$11.4 million, representing 14.6% of the amount of the net proceeds from the Share Offer, was intended to be used for establishing our in-house system design team in the PRC; and
- (v) HK\$1.1 million, representing 1.4% of the amount of the net proceeds from the Share Offer, was intended to be used for the purchase of the rights to use the BIM solution and enterprise resources software.

Since the Listing Date and up to the date of this announcement, the Group has utilised approximately HK\$36.7 million of the Net Proceeds for (i) funding of the Upfront Costs for the Awarded UOP Projects, (ii) being used as collateral for the required Performance Bonds of the Awarded UOP Projects, (iii) strengthening our teams of professional staff in Hong Kong and (iv) purchasing the rights to use the BIM solution and enterprise resources software, which is in line with the purposes shown above.

As at the date of this announcement, approximately HK\$41.5 million of the Net Proceeds remains unutilised, representing approximately 53.1% of the Net Proceeds.

CHANGE IN USE OF NET PROCEEDS

For reasons set out in the paragraph headed “Reasons for and Benefits of the Change in Use of Proceeds” of this announcement, the Board has resolved to change the use of Net Proceeds as follows: approximately 14.6% of the Net Proceeds in an amount of approximately HK\$11.4 million, which was originally allocated for establishing our in-house system design team in the PRC, will be reallocated for funding the Upfront Costs of a project awarded after the Listing Date (the “**Reallocated Net Proceeds**”). The utilisation of the Net Proceeds up to the date of this announcement and the proposed use of the Reallocated Net Proceeds after reallocation are set out as follows:

Use of Net Proceeds	Original allocation of Net Proceeds <i>HK\$ million</i>	Actual amount of utilised Net Proceeds as of the date of this announcement <i>HK\$ million</i>	Reallocation of the Net Proceeds <i>HK\$ million</i>	Unutilised amount of the Net Proceeds and the Reallocated Net Proceeds <i>HK\$ million</i>
Funding the Upfront Costs to be incurred after the Listing Date for the Awarded UOP Projects	45.2	25.1	11.4	31.5
Being used as collateral for the Performance Bonds to be issued for the Awarded UOP Projects	8.8	8.8	-	-
Strengthening our teams of professional staff in Hong Kong	11.7	2.0	-	9.7
Establishing in-house system design team in the PRC	11.4	-	(11.4)	-
Purchase of the rights to use BIM solution and enterprise resources software	1.1	0.8	-	0.3
Total	78.2	36.7	-	41.5

Save for the aforesaid changes, there are no other changes in the use of the Net Proceeds.

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

COVID-19 Pandemic's impact on Global Economy

The global spread of COVID-19 had sparked a global economic tsunami, disrupting the market, production and supply chains everywhere including the PRC and Hong Kong, the boundaries of both have been locked down for months. As the COVID-19 situation is persistently evolving rapidly, there remains a significant degree of uncertainty over the severity and duration of the global outbreak, as well as the possible negative impact to the global economy.

Having monitored and assessed the current impact and uncertainty brought about by the COVID-19 pandemic, the Board has resolved to change the use of Net Proceeds as set out in the paragraph headed "Change in Use of Net Proceeds" after considering the following factors:

(1) Establish our In-House System Design Team in the PRC

The outbreak of the COVID-19 pandemic in 2020 has led to a dramatic change in the business environment in Hong Kong. The Board considers that it is uncertain as to how long the COVID-19 pandemic may persist. The series of precautionary and quarantine control measures implemented in the PRC and Hong Kong cast uncertainties to the Group's implementation plan in the PRC. Extended quarantine measures, travel restriction and safe distancing measures to contain the COVID-19 pandemic poses a major problem to continue with establishing our in-house system design team in the PRC. It will not only hinder the progress of recruiting the design team in the PRC but also negatively affect the efficiency and effectiveness of the Group to manage a team in the PRC because of travel restriction and quarantine measures. In view of the aforesaid uncertainty and difficulty caused by the COVID-19, the Group considers it more appropriate to reallocate the unutilised Net Proceeds of HK\$11.4 million from establishing our in-house system design team in the PRC to funding the Upfront Costs of a project awarded after the Listing Date.

(2) Increase in upfront costs for projects newly awarded to the Group after the Listing

The Group was listed on the Main Board of the Stock Exchange on 15 April 2020. The Listing has raised the Group's profile and the additional capital raised has further strengthened the Group's presence in the industries of façade works and building metal finishing works in Hong Kong, as evidenced by the Group obtaining eight new projects with aggregate contract sum (the "**Newly Awarded Projects**") of approximately HK\$371.5 million over a span of six months subsequent to the Group's Listing and up to the date of this announcement. The relevant upfront costs to be incurred is expected to be approximately HK\$55.5 million representing approximately 14.9% of the aggregate contract sum of the Newly Awarded Projects, as compared to the average of 19.7% incurred by the Group during the Track Record Period. The Directors has resolved to utilise the Reallocated Net Proceeds in one of the Newly Awarded Projects, details of such project are shown as below:

Type of project	Façade works
Nature of the building or facility	Public facility
Role of the Group	Domestic subcontractor
Original contract sum	HK\$105.8 million
Estimated amount of Upfront Costs	HK\$17.6 million

The above project is one of the sizable projects in the Newly Awarded Projects which has been kicked off recently with upfront costs already incurred and continued for an expected duration of one to two years. Hence, the Group proposes to utilise an amount of approximately HK\$11.4 million from the Reallocated Net Proceeds for the upfront costs of the above project.

THE BOARD'S VIEWS

In view of the global COVID-19 pandemic, the Board is of the view that the current priority should be to strengthen its position in the market and focus on completing the existing and new potential projects. To this end, the Group would require more working capital and upfront project costs to provide strong support for the secured and potential projects in the pipeline.

Based on the interests of the Group and the Shareholders as a whole, and in order to strengthen the effectiveness of capital use and of the business operations, the use of proceeds is appropriately adjusted to better meet the current economic climate and business needs of the Group. This would allow the Group to utilise its financial resources in a more beneficial and effective way so as to focus on potential business opportunities.

As compared with the Reallocated Net Proceeds being kept as idle cash or seeking loans from financial institutions to finance the project upfront costs, the Board considers that the re-allocation of 14.6% of the Net Proceeds in an amount of approximately HK\$11.4 million from establishing our in-house system design team in the PRC to funding the upfront costs for a project newly awarded to the Group after the Listing is more beneficial to the Group's operation needs in mitigating the impacts and challenges brought about by the COVID-19 pandemic.

The Board considers that the change in the use of the Net Proceeds is fair and reasonable, which allows the Group to meet its financial needs more efficiently and flexibly. The Board also considers that the proposed change in the use of Net Proceeds will not have any material adverse effect on the existing business and operations of the Group and is in the best interests of the Company and its shareholders as a whole.

By Order of the Board
Lotus Horizon Holdings Limited
CHU Kwok Fun
Chairman and Chief Executive Officer

Hong Kong, 30 October 2020

As at the date of this announcement, the board of directors of the Company comprises Mr. CHU Kwok Fun (Chairman and Chief Executive Officer) and Mr. TSANG Chiu Wan as executive Directors, and Ms. LEUNG Yin Fai, Mr. MA Tsz Chun and Ms. YUEN Wai Yee as independent non-executive Directors.