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ARTGO HOLDINGS LIMITED

雅高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3313)

CHANGE IN USE OF PROCEEDS

Financial Adviser



Euto Capital Partners Limited

Reference is made to the prospectus of ArtGo Holdings Limited (the “**Company**”) dated 16 December 2013 (the “**Prospectus**”) in relation to the listing of the Company’s shares on the main board of The Stock Exchange of Hong Kong Limited. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Prospectus. The net proceeds from the Global Offering received by the Company, after deducting underwriting commissions and related expenses in connection with the Global Offering, amounted to approximately RMB655.5 million. Pursuant to the section headed “Future Plans and Use of Proceeds” in the Prospectus and the interim report for the six months ended 30 June 2016 of the Company (the “**Interim Report**”), the net proceeds from the Global Offering would be used for the following purposes:

- (a) approximately 40% of the net proceeds (approximately RMB262.2 million) to fund the future capital requirements of the Yongfeng Mine, including purchase of production equipment for the mine, construction of the mine and its support facilities, payment towards any outstanding balance of our mining right fees and payment toward land acquisition relating to the mine;
- (b) approximately 30% of the net proceeds (approximately RMB196.7 million) to fund the construction of our slab processing facilities, most of which are expected to be used on phase 1 of the slab processing facilities;
- (c) approximately 10% of the net proceeds (approximately RMB65.6 million) to fund the expansion our sales channels, including leasing and remodeling our retail outlets and show rooms, and hosting our annual distributor conferences as well as brand promotional activities;

- (d) approximately 10% of the net proceeds (approximately RMB65.6 million) to fund selective acquisitions of high-end and premium marble resources; and
- (e) approximately 10% of the net proceeds (approximately RMB65.6 million) for working capital and other general corporate purposes.

As at 31 December 2016, the Company had utilized approximately RMB605.3 million of net proceeds from the Global Offering, of which the allocation is different from the original allocation. The Company originally planned to use approximately 40% of the net proceeds (approximately RMB262.2 million) to finance for further capital expenditure of the Yongfeng Mine while, as at 31 December 2016, the Company has only utilized RMB9.2 million out of the RMB262.2 million of the net proceeds from the Global Offering allocated for the capital expenditure of Yongfeng Mine. The details of the original allocation of the net proceeds, the revised allocation of the net proceeds and the final utilization of the net proceeds as at 31 December 2016 are set out below:

Uses	Original allocation RMB'000	Revised allocation RMB'000	Utilized as at 31 December 2016 RMB'000	Remaining balance after revised allocation RMB'000
Capital expenditure of Yongfeng Mine	262,200	9,200	9,200	—
Construction of slab processing facilities	196,700	196,700	196,700	—
Expansion of sales channels	65,550	65,550	34,647	30,903
Acquisition of marble resources	65,550	65,550	65,550	—
Working capital and other general corporate purposes	65,550	65,550	46,258	19,292
Acquisition of the entire issued share capital of Evoke Investment Limited as at 19 December 2016	—	49,559	49,559	—
Acquisition of the entire issued share capital of Chancellor Investment Holding Limited as at 29 December 2016	—	203,441	203,441	—
Total:	<u>655,550</u>	<u>655,550</u>	<u>605,355</u>	<u>50,195</u>

Save for the abovementioned changes, there is no other change of the use of the net proceeds from the Global Offering.

REASONS FOR THE CHANGE OF USE OF PROCEEDS

As mentioned in the Interim Report, the revenue of the Group had recorded a decrease of 12.4% as compared with the corresponding period of the previous year. The decrease was due to the fall in sales volume of marble products produced from the Yongfeng Mine. Upon discreet investigation by the Company and the local staff of the Yongfeng Mine, it is suspected that there were other competitors producing similar marbles in the nearby mines without mining permit in the Yongfeng County and selling their products under certain product brands owned and registered by the Huijin Stone (Xiamen) Co., Ltd., a indirect wholly-owned subsidiary of the Company and had affected the sales performance of the Company. The Company is seeking legal advice with respect to the brand infringement and will take legal actions as appropriate.

In light of the above circumstances, the Company had filed complaint letters to different divisions of the Land Bureau of the Jiangxi Province (the “**Land Bureau**”) on 16 February 2017 and 28 February 2017 respectively to pursue an investigation by the government officials. The Company had obtained a reply from the Land Bureau on 17 March 2017 in noting the Company’s request and taking action as they see necessary. Subsequent to a couple of discussions with the relevant local authorities, the Company was confident that the situation can be rectified in future. However, the Company noted that its revenue was adversely affected further in the second half of the year. As a consequence, the Group’s extraction process was adjusted accordingly to match the sales volume of marble products produced from the Yongfeng Mine while pending the outcome of the actions to be taken by the relevant authorities so that the Group’s normal process of the extraction activities can be restored. In light of the adjusted extraction process, the Company hence also altered its capital expenditure in Yongfeng Mine from its original allocation as detailed above. Despite the above alteration, the Company’s investment in Yongfeng Mine remained unchanged and the Company expects the investment plan shall resume in future.

Apart from the Company’s continuing operation in the Yongfeng Mine, Zhangxi Mine and Lingnan Mine, all of which mainly produces white and grey colored limestone, the Company had also mentioned in the Future Plan of the Interim Report that the Group has been striving to develop its international business by enriching its range of export products on an ongoing basis to enhance its competitiveness in the international market. The Board is of a view that it is in the best interest of the Company and its shareholders as a whole to diversify its portfolio of products that can capture customers’ demand better and strengthen the overall competitiveness of the Group in the stone market. Therefore, the Board had been exploring other mining resources.

While pending a solution for Yongfeng Mine, the Board was presented with opportunities to invest in Evoke Investment Limited (“**Evoke Investment**”) and Chancellor Investment Holding Limited (“**Chancellor Investment**”) that owns mining rights of mining property that produces white stripe in black marble and wooden sea fossil marble respectively in December 2016. Considering the development strategies of the Group and the need to satisfy the proceeds requirement for the acquisition of both Evoke Investment and Chancellor Investment, the Board had resolved to change the original use of the net proceeds and reallocate the unutilized RMB253 million of the net proceeds originally allocated for the capital expenditure of Yongfeng Mine to the acquisition of these two companies. Eventually,

the Company used RMB49.559 million and RMB203,441 million, out of the net proceeds from the Global Offering, to acquire Evoke Investment and Chancellor Investment respectively.

The Company is aware that it should have made this announcement timely and the failure of which was due to inadvertent omission and unintentional oversight.

The Board confirms that there is no material change in the nature of business of the Group (except the addition of the mining, processing, trading and sales of limestone) as set out in the Prospectus. The Board considers the above change in the use of the net proceeds from the Global Offering is fair and reasonable for the benefit as mentioned above.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board of
ArtGo Holdings Limited
Wu Jing
Chairman and Executive Director

Hong Kong, 31 March 2017

As at the date of this announcement, the executive Directors are Mr. Gu Weiwen, Mr. Zhang Jian, Ms. Wu Jing, Dr. Leung Ka Kit and Mr. Li Dingcheng, the non-executive Director is Mr. Gu Zengcai, and the independent non-executive Directors are Mr. Liu Jianhua, Mr. Wang Hengzhong, and Mr. Hui Yat On.