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SUNLIGHT (1977) HOLDINGS LIMITED

日光 (1977) 控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8451)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus of Sunlight (1977) Holdings Limited (the “**Company**”) dated 27 March 2018 (the “**Prospectus**”) in relation to the listing of the Company’s shares (the “**Shares**”) on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the announcement of the Company titled “Announcement of Offer Price and Allotment Results” dated 13 April 2018 (the “**Allotment Results Announcement**”) and the annual report of the Company for the year ended 30 September 2018 (the “**Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Prospectus.

STATUS OF IMPLEMENTATION PLAN OF THE USE OF PROCEEDS

The net proceeds from the Share Offer (the “**Net Proceeds**”) were approximately HK\$30.0 million (approximately S\$4.6 million), after deduction of the underwriting commission and other Listing expenses. As stated in the section headed “Future Plans and Use of Proceeds” in the Prospectus and the Allotment Results Announcement, the Company intended to use the Net Proceeds for the following purposes:

- (i) approximately 20.7%, or HK\$6.2 million (equivalent to S\$0.9 million), for upgrading the Group’s conversion line for the production of jumbo roll tissues;
- (ii) approximately 4.3%, or HK\$1.3 million (equivalent to S\$0.2 million), for acquiring a new conversion line for the production of hand towels;
- (iii) approximately 65.0%, or HK\$19.5 million (equivalent to S\$3.0 million), for investing in an additional factory building in Singapore to be used as the Group’s warehouse and purchasing delivery trucks and lifting equipment; and
- (iv) approximately 10.0%, or HK\$3.0 million (equivalent to S\$0.5 million), as working capital and other general corporate purposes.

As at the date of this announcement, approximately HK\$1.0 million (equivalent to approximately S\$0.2 million) has been used for working capital and other general corporate purposes.

CHANGE IN USE OF PROCEEDS

As stated in the Prospectus, in anticipation of the increase in the production of tissue products by the Group and the expected increase in inventory level, it was one of the Group's business strategies to invest in an additional factory building to be used as warehouse to increase overall space.

As stated in the section headed "Management Discussion and Analysis — Financial Review — Comparison of Business Objectives with Actual Business Progress and Use of Proceeds" in the Annual Report, the Company has not identified a suitable factory to be acquired for use as warehouse (the "**Acquisition**") and no agreement had been entered into in respect of the planned investment in an additional factory building. The Company was exploring other options, including extending the factory by adding another floor (the "**Extension**"), which were subject to certain approvals from Singapore government authorities, as advised by an architect.

In Singapore, the gross floor area of any building is predetermined by the plot ratio of the corresponding land where the building stands. The plot ratio is stated in the masterplan which is managed by the Urban Redevelopment Authority ("**URA**"). The masterplan is reviewed by URA every five years and the revision to the plot ratio, if any, is strictly at the discretion of URA. The plot ratio of the land where the Group's existing factory stands was 1.0 when the Group acquired the land with total site area of 2,999.9 sq.m. in 2000. The Company had therefore built the factory to the allowed gross floor area of 2,993.42 sq.m. and there was no option to extend the gross floor area any further. In the masterplan revised by URA in 2014, URA revised the plot ratio for most of the land in Tuas from 1.0 to 1.4, including the land where the Group's existing factory stands. However, the Company was not aware of this revision.

After the Board became aware of the revision of the plot ratio as advised by an architect, the Company made submission to various government authorities to seek their approvals for the Extension. Details of such approvals are stated in the Annual Report. Subsequent to the Annual Report, the Company received approval to extend the existing factory building by another 1,200 sq.m., subject to the payment of a specified quantum of development charge.

The Group shall continue to utilise the Net Proceeds of approximately HK\$19.5 million (equivalent to approximately S\$3.0 million) for increasing overall space. However, as a result of the current plan to extend the factory by adding another floor instead of the Acquisition, the Board resolved to utilise the Net Proceeds originally allocated for the Acquisition to the Extension instead.

BENEFITS OF THE EXTENSION

The Board is of the view that the Extension has the following benefits:

- The total estimated costs (less tax incentives) of the Extension is S\$3.0 million, which is lower than the estimated capital expenditure of the Acquisition of S\$6.5 million as stated in the Prospectus. The Extension allows the Group to reduce the total cost of investment for additional factory space.
- The Extension will be mostly funded by the Net Proceeds allocated for investment in an additional factory. This allows the Group to save borrowing costs from bank loans and/or allocate internal resources for working capital purposes.
- Following the Extension, the Group's operation will be conducted in the same building. The Extension allows the Group to save operating costs, including overhead costs, in an additional factory and transportation costs between two factories.

As compared to the Acquisition, the Board is of the view that the Extension will lower the total investment cost and the annual depreciation charge of the Group following the completion of the Extension, which will increase the Group's overall profitability. The Extension will serve the same purpose of increasing overall space and will not change its business strategies of investment in another factory.

EXTENSION

The Company would extend an additional floor of approximately 1,200 sq.m. in the existing factory building, and the Group had made the relevant applications to the government authority for the Extension. The projected construction period is between 12 and 15 months from the date of approval of the building plans by the government authorities. In order to enhance the overall production efficiency of the Group following the Extension, the Group will streamline the production flow and the layout of the building, and will house the conversion facilities for JRT and hand towels in the factory. The Board is of the view that the additional space from the Extension is sufficient to accommodate the conversion facilities and the projected increase in inventory level arising from the Group's production of tissue products.

In addition to the Extension, the Group intended to overcome certain limitations of the existing factory building and improve logistics and delivery efficiency, as advised by an architect and other professional parties, by purchasing a stationary hydraulic scissor loading-unloading platform to be funded by internal resources whereby a forklift can be lifted to be level with the container for efficient loading and unloading. With this more efficient loading and unloading solution, the down time due to bad weather would be reduced significantly.

REVISED USE OF PROCEEDS

The Board has resolved to adjust the intended use of the Net Proceeds as follows:

	Original allocation as disclosed in the Prospectus <i>HK\$'000</i>	Utilised amount as at the date of this announcement <i>HK\$'000</i>	Unutilised amount as at the date of this announcement <i>HK\$'000</i>	Revised allocation <i>HK\$'000</i>
Upgrade conversion line for the production of jumbo roll tissue	6,200	—	6,200	6,200
Acquire a new conversion line for the production of hand towels	1,300	—	1,300	1,300
Invest in an additional factory building in Singapore to be used as warehouse and purchase delivery trucks and lifting equipment	19,500	—	19,500	—
Extension of existing factory building and purchase lifting equipment	—	—	—	19,500
Working capital and other general corporate purposes	3,000	1,002	1,998	1,998

THE BOARD'S VIEWS

The Board considers that the above changes in the use of proceeds and the treatment of unutilised proceeds are fair and reasonable, and would meet the financial needs of the Group more efficiently and enhance the flexibility in financial management of the Company. The Board is of the view that the reallocation is in line with the business strategy of the Group and will not adversely affect the operation and business of the Group and is in the best interest of the Company and the Shareholders as a whole. The Directors will continuously assess the business objectives of the use of proceeds as set out in the Prospectus, the Annual Report and above, and will revise or amend such plans to cope with the changing market conditions to ensure the business growth of the Group. The Board confirms that, save as disclosed in this announcement, there are no other changes to the use of Net Proceeds.

By Order of the Board
Sunlight (1977) Holdings Limited
Chua Liang Sie
Chairman and Chief Executive Officer

Singapore, 5 March 2019

As at the date of this announcement, the Board comprises Mr. Chua Liang Sie (Chairman), Ms. Chua Joo Gek, Mr. Chua Liang Chui and Mr. Chua Wenhao (alias Cai Wenhao) as executive Directors; Mr. Tan Heng Thye, Mr. Ng Boon Cheow Freddie and Ms. Lye Kheng Joke Sylvia as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the website of GEM at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.sunlightpaper.com.sg.

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.