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Shun Wo Group Holdings Limited

汛和集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1591)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus of Shun Wo Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 12 September 2016 (the “**Prospectus**”) relating to the share offer (the “**Share Offer**”) and the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the interim report of the Company for the six months ended 30 September 2020 (the “**2020 Interim Report**”) published on 18 December 2020 in which the utilisation of the net proceeds from the Share Offer from the listing up to 30 September 2020 was disclosed. Unless otherwise specified herein, capitalised terms used in this announcement have the same meanings as those defined in the Prospectus. The board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to inform the Shareholders and potential investors that it resolved to change the intended use of the net proceeds from the Share Offer.

USE OF PROCEEDS

The net proceeds received by the Group, after deducting related expenses were approximately HK\$84.2 million (the “**Net Proceeds**”). As set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus, the Company intended to use the Net Proceeds for the following purposes:

- (i) approximately HK\$55.0 million (approximately 65.3% of the Net Proceeds) will be used for acquiring additional excavators, cranes and breakers;
- (ii) approximately HK\$15.0 million (approximately 17.8% of the Net Proceeds) will be used for strengthening its workforce and manpower;
- (iii) approximately HK\$6.2 million (approximately 7.4% of the Net Proceeds) will be used for increasing its marketing efforts; and
- (iv) approximately HK\$8.0 million (approximately 9.5% of the Net Proceeds) will be used as its general working capital.

As at the date of this announcement, the Group had used approximately HK\$59.8 million (approximately 71.0% of the Net Proceeds).

CHANGE IN USE OF PROCEEDS

The Board has resolved to change the proposed use of the Net Proceeds. Details of the original allocation of the Net Proceeds, the revised allocation of the Net Proceeds, the actual usage up to the date of this announcement and the remaining balance after the revised allocation of the Net Proceeds are set out as follows:

| Use of the Net Proceeds | Original allocation <i>HK\$'000</i> | Revised allocation <i>HK\$'000</i> | Actual usage up to the date of this announcement <i>HK\$'000</i> | Remaining balance after revised allocation <i>HK\$'000</i> | Expected timeline for fully utilising the remaining Net Proceeds |
|--|---|--|--|--|--|
| Acquiring excavators, cranes and breakers | 55,000 | 41,000 | 33,164 | 7,836 | On or before 31 March 2022 |
| Strengthening the workforce and manpower | 15,000 | 15,000 | 15,000 | — | Not applicable |
| Increasing marketing efforts | 6,200 | 4,200 | 3,652 | 548 | On or before 31 December 2021 |
| Funding of general working capital | 8,000 | 8,000 | 8,000 | — | Not applicable |
| Financing the up-front costs of projects | — | 12,000 | — | 12,000 | On or before 31 March 2022 |
| Financing the issuance of performance bonds | — | 4,000 | — | 4,000 | On or before 31 March 2022 |
| Total | <u>84,200</u> | <u>84,200</u> | <u>59,816</u> | <u>24,384</u> | |

REASONS FOR CHANGE IN USE OF PROCEEDS

In order to facilitate the Group to undertake additional projects in the future, the Board has resolved to change the use of the Net Proceeds. The proportion of Net Proceeds allocated for the acquisition of excavators, cranes and breakers and for marketing efforts will be reduced and reallocated to enhance the working capital base of the Group for financing the up-front costs of projects and the issuance of performance bonds.

In recent years, the Group has continuously expanded its client base by tendering projects as a main contractor from different customers. While this strategy enables the Group to diversify its sources of projects, the role of main contractor generally entails greater needs for working capital as the main contractor is required to bear project up-front costs and other site preparation expenses to a greater extent than subcontractors.

The spread of COVID-19 had triggered an economic downturn in Hong Kong. As the COVID-19 situation is still evolving rapidly, there remains a significant degree of uncertainty over the severity and duration of the economic outbreak of Hong Kong, as well as the trajectory of the economic recovery once the outbreak has been contained. In view of the aforesaid, the Board believes that it is financially prudent to strengthen the liquidity management of the Group in order to enhance its flexibility in responding to different challenges ahead. In particular, the Board considers that it is vital to ensure that the Group has sufficient working capital to support its ongoing projects and daily operations in case of any unexpected material delay or disruption in projects implementation.

As the proportion of income derived by the Group in the role of main contractor increases and in light of the potential impact due to the outbreak of the COVID-19, the Board considers that the Group has genuine needs to enhance its reserve for financing the implementation of its upcoming projects, as more particularly described in the paragraphs below:

Financing the up-front costs of projects

The Group generally experiences cash outflow at the preliminary stage of a project. As the Group undertakes projects as a main contractor, the up-front costs of the projects generally include payments to subcontractors for subcontracting works, payments to suppliers for construction materials and other preliminary expenses. Based on the Group's existing operations and depending on the scale of the projects, it generally takes approximately three to four months to receive first progress payment since its commencement. As at the date of this announcement, the Group had 12 tenders which were still undergoing tender selection process. Given that the working capital requirements for financing project up-front costs will further increase as the Group undertakes additional projects as a main contractor, the Board intends to reallocate part of the unutilised Net Proceeds for financing the working capital needs of the Group in the future.

Financing the issuance of performance bonds

When the Group is engaged as a main contractor in a project, it is generally required to provide performance bonds in the amount up to 10% of the contract sum in favour of its customers. Such arrangement serves to secure the Group's due and timely performance of work and compliance with the contract. If the Group fails to perform according to the requirements in the contract, its customers would be entitled to guaranteed compensation for any monetary loss up to the amount of the performance bond. When arranging for the issuance of performance bond, the Group places a pledged deposit in an amount equivalent to the amount of the performance bond with the issuing financial institution. Taking into consideration the Group's strategy in undertaking more projects in the role of a main contractor, the Board intends to reallocate part of the unutilised Net Proceeds to strengthen its financial resources for fulfilling the aforesaid requirement for performance bonds.

Save for the aforesaid changes, there is no other change in the use of the Net Proceeds. The Directors confirm that the development direction and business nature of the Group are still in line with the disclosure in the Prospectus in spite of such change in use of proceeds as stated above. The Directors consider that the above changes in the use of the Net Proceeds are fair and reasonable, as they would allow the Company to deploy its financial resources

more effectively to support the business of the Group. The Directors further consider that such changes will allow the Group to better accommodate with the changing market conditions and are therefore in the interests of the Group and the Shareholders as a whole.

By order of the Board
Shun Wo Group Holdings Limited
Wong Yan Hung
Chairman

Hong Kong, 8 January 2021

As at the date of this announcement, the executive Directors are Mr. WONG Yan Hung, Mr. WONG Tony Yee Pong and Mr. LAI Kwok Fai and the independent non-executive Directors are Mr. LAW Ka Ho, Mr. LEUNG Wai Lim and Mr. TAM Wai Tak Victor.