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Linocraft Holdings Limited **東駿控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8383)

CHANGE IN USE OF PROCEEDS

Reference is made to *(i)* the prospectus issued by Linocraft Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 August 2017 (the “**Prospectus**”) in relation to the listing of the Company’s shares on GEM of The Stock Exchange of Hong Kong Limited, which sets out the intended use of the net proceeds from the issue of new shares of the Company (the “**Net Proceeds**”) at the time of preparing the Prospectus; and *(ii)* the interim report of the Company for the six months ended 28 February 2023 published on 14 April 2023 (the “**Interim Report**”), in which the balance of Unutilized Proceeds up to 28 February 2023 was disclosed. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the Prospectus and the Interim Report.

USE OF PROCEEDS

Based on the Offer Price of HK\$0.40 per Offer Share, the Net Proceeds received by the Company, after deducting the underwriting fees and commissions and other estimated expenses payable by the Company in relation to the Share Offer, were approximately HK\$61.0 million. As disclosed in the section headed “**FUTURE PLANS AND USE OF PROCEEDS**” in the Prospectus, the Company intended to apply such Net Proceeds as follows (adjusted on a pro-rata basis according to the final Offer Price and the actual Net Proceeds received):

- approximately 10.1% of the total estimated net proceeds, or approximately HK\$6.0 million, for expansion of business into other industries such as FMCG, medical and cosmetics, as well as food and beverage;
- approximately 23.3% of the total estimated net proceeds, or approximately HK\$14.2 million, for product line expansion to increase the product offering;
- approximately 45.8% of the total estimated net proceeds, or approximately HK\$28.1 million, for geographical expansion in order to gain access to new markets;

- approximately 11.7% of the total estimated net proceeds, or approximately HK\$7.1 million for the repayment of a portion of outstanding bank loans with interest rate of approximately 5.0% (based on interest rate as at the Latest Practicable Date) and maturity date ranging from 2018 to 2024. Part of the loans to be discharged was incurred in December 2016, the borrowings were used for purchase of equipment and machinery and working capital; and
- approximately 9.1% of total estimated net proceeds, or approximately HK\$5.6 million for the working capital and other general corporate uses.

CHANGE IN USE OF PROCEEDS

As at the date of this announcement, the remaining Unutilized Proceeds amounts to approximately HK\$9 million.

After careful consideration and detailed evaluation of the Group's operations and business strategies, the Board has resolved to allocate the Unutilized Proceeds as to approximately HK\$5.0 million for repayment of bank borrowing and as to approximately HK\$4.0 million as general working capital of the Group, which are expected to be fully utilized by the Group by 31 August 2024.

The balance of Unutilized Proceeds disclosed in the Interim Report and the revised use of Net Proceeds after the changes are set forth below:

Business Strategy	Planned use of Net Proceeds as stated in the Prospectus and Interim Report		Actual use of Net Proceeds used up to 28 February 2023	Unutilized Proceeds as at 28 February 2023 and as at the date of this announcement	Revised allocation of Unutilized Proceeds		Revised use of Net Proceeds
	%	HK\$ million			HK\$ million	HK\$ million	
Diversified customer industry — expansion into other industries	10.1	6.0	5.2	0.8	—	5.2	
Product line expansion	23.3	14.2	11.0	3.2	—	11.0	
Geographical expansion	45.8	28.1	23.1	5.0	—	23.1	
Repayment of bank loan	11.7	7.1	7.1	—	5.0	12.1	
General working capital	9.1	5.6	5.6	—	4.0	9.6	
	<u>100</u>	<u>61.0</u>	<u>52.0</u>	<u>9.0</u>	<u>9.0</u>	<u>61.0</u>	

REASONS FOR THE CHANGE IN USE OF PROCEEDS

The planned use of Net Proceeds as stated in the Prospectus was based on the best estimation made by the Group in relation to the then future market conditions as at the latest practicable date of the Prospectus. In this connection, the Board evaluates the trends of the industry with the global and local economic conditions to determine the most effective and efficient use of the Net Proceeds.

Reasons for change in use of Net Proceeds for the business strategies which were disclosed in the section (the “**Section**”) headed “FUTURE PLANS AND USE OF PROCEEDS” in the Prospectus:

1. Diversified customer industry — continue to expand business in other industries such as FMCG, medical and cosmetics as well as food and beverage (the “Business Expansion”).

As at the date of this announcement, the Group has completed the planned implementation activities for the Business Expansion as stated in the Section except for the “*Expansion of design and solutions and quality assurance facilities in Malaysia*”.

The Directors consider that the existing resources is sufficient to support the function and would prefer to maintain a lean operation during this challenging period. Therefore, the remaining Unutilized Proceeds of approximately HK\$0.8 million, which was planned for the Business Expansion, has been reallocated for the general working capital of the Group.

2. Product line expansion — develop new products/services to increase revenue stream.

As at the date of this announcement, the Group has completed most of the planned implementation activities for the product line expansion as stated in the Section except for the “*Development of new product line — adhesive labels in Malaysia*” and “*Setting up of sample show room in Malaysia*”.

In light of contributions to revenue from the business segment of adhesive labels, which has decreased to a smaller business segment of our Group due to its nature of lower margin with relatively minimal market demand. In addition, in response to the recent global economic downturn, our customers are more concerned on cost reduction and change in material for the packaging products. The Directors consider that it is not in the interest of the Group to develop the new product line for adhesive labels in Malaysia. With regards to the sample show room set up, the Directors consider that it is not value adding to the business under the prevailing circumstances nor aligned with the marketing strategy at the moment. Therefore, the remaining Unutilized Proceeds of approximately HK\$3.2 million, which was planned for product line expansion, has been reallocated for general working capital of the Group specified for purchase of raw materials.

3. Geographical expansion — gain access to new markets

As at the date of this announcement, the Group has completed the planned implementation activities for the geographical expansion as stated in the Section except for the “*Setting up of plant in northern part of Malaysia, with post-press production facilities (finishing only)*”.

In view of the outbreak of the Pandemic in early 2020, a series of precautionary and control measures had been undertaken by the Malaysian government to minimize the adverse impact of the Pandemic, including but not limited to, various stages of movement control orders which imposed home staying orders, inner-district and inter-state travelling restrictions as well as shortening of operating hours for business and as closure of all non-essential industries. Therefore, the expansion plan had not been initialized and the relevant Unutilized Proceeds of approximately HK\$5 million had been idled for years. As there remains significant uncertainty on the extent of the continuous impact from the Pandemic and particularly the reiteration of travelling restrictions. The Board has carefully considered the potential benefits and risks for the execution of the remaining geographical expansion plan and has determined that execution of it in near future is not in the best interests of the Group. Furthermore, interest rate has been increasing since 2022. Hence, in order to lower the financial expenses, the remaining Unutilized Proceeds of approximately HK\$5 million, which was planned for geographical expansion, has been reallocated for repaying the bank overdraft/borrowings.

CONCLUSION

The Board is of the view that the change in use of the unutilized Net Proceeds will enable the Group to utilize idle cash resources to effectively meet the financial needs of the Group as well as enhance the flexibility in its financial management and is in line with the current business strategies of the Group. therefore, the Board considers that it is in the best interests of the Group and its shareholders as a whole.

The Board also confirms that there is no material change in the principal business of the Group as set out in the Prospectus and is of the view that the above change will not adversely affect its operation and business.

The Board will continuously assess the plans for use of the Net Proceeds, and may revise or amend such plans where necessary to respond to the changing market conditions and strive for better business performance of the Group. Save as disclosed in this announcement, there are no other changes on the use of the Net Proceeds.

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

By order of the Board
Linocraft Holdings Limited
Tan Woon Chay
Executive Director

Hong Kong, 28 September 2023

As at the date of this announcement, the executive Directors are Mr. Ong Yoong Nyock and Mr. Tan Woon Chay and the independent non-executive Directors are Mr. Choy Wing Keung David, Mr. Liew Weng Keat and Mr. Teoh Cheng Tun.

This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 “Latest Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for a minimum period of seven days from the date of its publication and on the Company’s website at www.linocraftprinters.com.