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HON CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8259)

SUPPLEMENTAL ANNOUNCEMENT

IN RELATION TO UNAUDITED AND AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcement of Hon Corporation Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 March 2020 (the “**Unaudited Results Announcement**”) in relation to the unaudited annual results for the year ended 31 December 2019 (the “**2019 Unaudited Results**”). Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as defined in the Unaudited Results Announcement.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce that as at the date of this announcement, the Company’s external auditors, Deloitte & Touche LLP, has completed its audit of the annual results of the Company for the year ended 31 December 2019 (the “**2019 Audited Annual Results**”), which has also been approved by the Board on 29 June 2020.

As certain changes have been made to the 2019 Unaudited Results as contained in the Unaudited Results Announcement, the material differences between the 2019 Unaudited Results and the 2019 Audited Annual Results (including the financial figures in respect of the Group’s consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position) are set out below.

- (a) Adjustments for cost of services of S\$0.3 million, other receivables of S\$1.9 million, and other payables of \$2.1 million due to backcharges from/to subcontractors.
- (b) An adjustment for the additional loss allowance on trade receivables of S\$0.6 million, which was due to re-assessment of the recoverability of outstanding balances from its debtors of the Group.
- (c) Reclassification between property, plant and equipment and right-of use assets due to adoption of IFRS 16.
- (d) Reversal on deferred tax due to multiple uncertainties related to going concern and no deferred tax assets to be recognised.

The following set forth the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 and the audited consolidated statement of financial position of the Group as at 31 December 2019, the relevant corresponding figures shown in the 2019 Unaudited Results and the relevant changes between audited and the unaudited figures (the Notes shown below correspond to the relevant paragraphs set out above):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

		Year ended 31 December 2019 S\$'000 (Unaudited)	Year ended 31 December 2019 S\$'000 (Audited)	Change S\$'000
Revenue		68,188	68,188	—
Cost of services	a	<u>(65,035)</u>	<u>(65,297)</u>	<u>(262)</u>
Gross profit		3,153	2,891	(262)
Other income		652	652	—
Other gains or losses	b	(111)	(748)	(637)
Administrative expenses		(7,618)	(7,618)	—
Finance costs		<u>(1,051)</u>	<u>(1,051)</u>	<u>—</u>
Loss before tax		(4,975)	(5,874)	(899)
Income tax benefit	d	<u>293</u>	<u>184</u>	<u>(109)</u>
Loss for the year		(4,682)	(5,690)	(1,008)
Other comprehensive expense:				
<i>Item that will not be reclassified to profit or loss</i>				
Gain on revaluation of properties		<u>685</u>	<u>685</u>	<u>—</u>
Total comprehensive expense for the year		<u>(3,997)</u>	<u>(5,005)</u>	<u>(1,008)</u>
Loss per share <i>(in SGD cents)</i>		<u>(0.01)</u>	<u>(0.01)</u>	<u>—</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		Year ended 31 December 2019 <i>S\$'000</i> (Unaudited)	Year ended 31 December 2019 <i>S\$'000</i> (Audited)	Change <i>S\$'000</i>
	<i>Notes</i>			
Non-current assets				
Property, plant and equipment	c	13,624	13,925	301
Right-of-use assets	c	1,994	1,693	(301)
Financial asset at fair value through profit or loss		328	328	—
Deferred tax assets	d	109	—	(109)
Other receivables		5,158	5,158	—
		<u>21,213</u>	<u>21,104</u>	<u>(109)</u>
Current assets				
Trade receivables	b	13,056	12,419	(637)
Deposits, prepayments and other receivables	a	9,816	11,667	1,851
Contract assets		31,140	31,140	—
Pledged bank deposits		3,305	3,305	—
Bank balances and cash		184	184	—
		<u>57,501</u>	<u>58,715</u>	<u>1,214</u>
Current liabilities				
Trade and other payables	a	31,103	33,216	2,113
Bills payables		19,737	19,737	—
Contract liabilities		51	51	—
Lease liabilities		388	388	—
Borrowings		4,569	4,569	—
Amounts due to directors		207	207	—
Income tax payable		10	10	—
		<u>56,065</u>	<u>58,178</u>	<u>2,113</u>
Net current assets		<u>1,436</u>	<u>537</u>	<u>(899)</u>
Total assets less current liabilities		<u>22,649</u>	<u>21,641</u>	<u>(1,008)</u>

	Year ended 31 December 2019 <i>S\$'000</i> (Unaudited)	Year ended 31 December 2019 <i>S\$'000</i> (Audited)	Change <i>S\$'000</i>
Non-current liabilities			
Lease liabilities	804	804	—
Borrowings	<u>4,799</u>	<u>4,799</u>	<u>—</u>
	<u>5,603</u>	<u>5,603</u>	<u>—</u>
Net assets	<u>17,046</u>	<u>16,038</u>	<u>(1,008)</u>
Capital and reserves			
Share capital	846	846	—
Share premium	7,722	7,722	—
Merger reserve	6,500	6,500	—
Revaluation reserve	3,727	3,727	—
Accumulated losses	<u>(1,749)</u>	<u>(2,757)</u>	<u>(1,008)</u>
Equity attributable to owners of the Company	<u>17,046</u>	<u>16,038</u>	<u>(1,008)</u>

AUDITOR'S AGREEMENT ON THE 2019 AUDITED ANNUAL RESULTS

Following the above adjustments, the Company's external auditors, Deloitte & Touche LLP, has agreed on the 2019 Audited Annual Results as set out in the announcement of annual results of the Company for the year ended 31 December 2019, which has been published on the website of the Stock Exchange at <http://www.hkgem.com> and the Company's website at www.honindustries.com.sg. on 29 June 2020.

EXTRACT OF THE AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated annual financial statements for the year ended 31 December 2019:

DISCLAIMER OF OPINION

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

BASIS FOR DISCLAIMER OF OPINION

Multiple Material Uncertainties Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group reported a net comprehensive loss of S\$5,005,000 and net cash outflows from operating activities of S\$11,823,000 for the financial year ended 31 December 2019 and, as of 31 December 2019, the Group's aggregate bills payables and borrowings amounted to approximately S\$29,105,000, out of which S\$24,306,000 will be due for repayment within twelve months from 31 December 2019; while its cash and bank balances amounted to approximately S\$184,000. As at 31 December 2019, the Group's subsidiary, Hon Industries Pte Ltd ("HIPL"), has breached a debt covenant with a financial institution as the Company's controlling shareholders diluted their equity interest in the Company to below 51%. As a result, bills payables and borrowings amounting to S\$4,490,000, which were already classified as current liabilities as at 31 December 2019, became immediately due and payable.

Subsequent to the financial year and as disclosed in Note 45 to the consolidated financial statements, the Group received (a) demand letters from several financial institutions (including the abovementioned financial institution) ("primary lenders") to demand repayment of bills payables and borrowings amounting to S\$17,401,000. As at the date of authorisation of these financial statements, the Group is in negotiations with the primary lenders to defer the payments on an instalment basis; (b) a proposed winding up application of HIPL. Following the High Court hearing on 12 June 2020, management

settled the claim with the plaintiff amounting to S\$240,000; and (c) Writ of Summons from various creditors amounting to S\$7,223,000 in which the legal proceedings are still on going as at the date of authorisation of these financial statements.

In addition, amidst the present market slow-down due to the COVID-19 pandemic, the cash flows and financial position of the Group have been impacted adversely as construction activities have to be halted during the “Circuit Breaker” period in Singapore from 7 April 2020 to 1 June 2020. In Phase 1 of the post “Circuit Breaker” period, the Group was also unable to resume construction activities on its ongoing projects. As Singapore moves into Phase 2 of the post “Circuit Breaker” period from 19 June 2020, there is still no certainty of resumption as approval has not been obtained from the relevant authorities. Consequently, the Group is exposed to an increased liquidity risk in relation to its ability to repay indebtedness when they fall due.

The financial statements have been prepared on a going concern basis, the validity of which is dependent on the timing of resumption of operations and the outcomes of various plans and measures that the directors of the Company have or intend to put in place, which are subject to material uncertainties, including:

- i. The ability of the Group to resume its operations from the third quarter of 2020 to enable progress billings to be made and collected, along with the improvement of the operating environment, amidst the significant uncertainties arising from the prolonged COVID-19 pandemic.
- ii. Successful negotiations with the primary lenders to defer the payments for the bills payables and borrowings amounting to S\$17,401,000 on an instalment basis.
- iii. Continued support from the Group’s existing banker in providing credit and overdraft facilities. As at the date of authorisation of the financial statements, the Group has fully utilised the overdraft facilities of S\$2,500,000.
- iv. Successful negotiation with its bankers to secure necessary facilities to meet the Group’s working capital and financial requirements in the near future. As at the date of authorisation of the financial statements, the Group has received a letter of offer from a banker for a loan facility of S\$3,500,000 which is expected to be received in August 2020.
- v. Successful agreement with the Group’s creditors of settlement arrangements beyond the credit period where applicable, including successful settlement of the legal proceedings with creditors who have served Writ of Summons to the Group, so as to ensure no further disputed claims and that no action or any further legal action will be taken by the creditors to demand immediate repayment, which may include winding up applications.

- vi. Successful in raising additional new capital through private placement of new shares and that the financial support from the substantial shareholder of the Company will be forthcoming when needed.

These events or conditions, along with other matters as set forth in Note 1, indicate the existence of multiple material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. Arising from these multiple uncertainties which are significant to the Group's ability to continue as a going concern, we are unable to conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of these accompanying financial statements.

Should the Group fail to achieve the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements of the Group for the year ended 31 December 2019.

BOARD'S VIEW AND AUDIT COMMITTEE'S VIEW

The Board agreed with the auditor's view in respect of the disclaimer of opinion and the management of the Group (the "**Management**") had assessed the Group's current liquidity, performance and available sources of financing in considering the Group's ability to continue as a going concern. The controlling shareholder and the Management has also taken or will continue to implement the measures to mitigate the Group's liquidity pressure and improve the conditions of cash flow, and on the assumption of successful and continued implementation of such measures, and taking into account a 12 months consolidated cash flows forecasts for the period ending 30 June 2021, the Management is satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis. The Board and the Management are of the view that the Group will, based on the execution of action plan (as detailed below), have sufficient cash resources to satisfy future working capital and other financing requirements as and when they fall due in the next twelve months from the date of this announcement.

The audit committee of the Company had reviewed the disclaimer of opinion and also the Management's position and their view as well as action plan of the Group to address the related issue. The audit committee is in agreement with the Board and the Management in relation to the disclaimer of opinion and the Group's ability to continue as a going concern, and in particular the actions or measures to be implemented by the Management or the Group.

The audit committee's views are based on (i) a review of action plan to address the disclaimer of opinion (with assumption and continued implementation) and a 12 months consolidated cash flows forecasts for the period ending 30 June 2021; and (ii) discussions between the audit committee and the auditor and the Board at the audit committee meeting and Board meeting held on 29 June 2020, respectively, regarding the disclaimer of opinion.

The audit committee is of the view that the Board should continue its efforts in implementing the actions and measures set out in the action plan with the intention of mitigating the Group's liquidity pressure and removing the disclaimer of opinion.

ACTION PLAN TO ADDRESS THE DISCLAIMER OF OPINION

In order to address the uncertainties that may cast significant doubt on the Group's and the Company's ability to continue as going concerns, and with a view to the disclaimer of opinion, the Company had taken and intends to continue to implement the following measures to mitigate the liquidity pressure and to improve its cash flows, including:

- i. Subject to the resumption of construction works due to "circuit breaker" in Singapore, the Group will resume all the construction activities to generate income.
- ii. Management is actively engaged in negotiations with the primary lenders to defer the payments for the bills payables and borrowings amounting to S\$17,401,000 on an instalment basis.
- iii. Management is negotiating with bankers to secure necessary facilities (including the utilized banking facilities not being withdrawn) to meet the Group's working capital and financial requirements. Management expects the Group to receive a new bank loan facility of S\$3,500,000 in August 2020.
- iv. The Group has been arranging for settlement of part of the trade payables outstanding to its creditors. The Group has ongoing communication with its creditors, and monitored closely any settlement requests of trade payables. The Group will further negotiate with its creditors and agree on the settlement arrangements beyond the credit period where applicable including successful settlement of the legal proceedings with creditors who have served Writ of Summons to the Group, so as to ensure that no action or any further legal action will be taken by the creditors to demand immediate repayment, which may include winding up applications.
- v. The Group may consider to raise additional new capital by carrying out fund raising activities through private placement of new shares.
- vi. The Group will continue its cost control measure over various costs with an aim to attain profitable and positive cash flow operations.

IMPACT OF THE AUDIT QUALIFICATION ON THE COMPANY'S FINANCIAL POSITION

Should the Group fail to achieve the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements of the Group for the year ended 31 December 2019.

REMOVAL OF THE DISCLAIMER OF OPINION

The Board is aware of the disclaimer of opinion relates to a going concern issue in preparing the financial statements for the year ending 31 December 2020, and will be responsible for assessing the Company's ability to continue as a going concern and the appropriateness of preparing the Group's consolidated financial statements on a going concern basis, based on the conditions and circumstances as at 31 December 2020.

The Management's assessment of the Company's ability to continue as a going concern as at 31 December 2020 would need to take into consideration of the conditions and circumstances and also include at least 12 months consolidated cash flows forecasts from 31 December 2020.

Therefore, assuming all the above action plan can be implemented as planned, there are no other material adverse changes to the business, operation and financial conditions of the Group and satisfactory completion of review of the Management's assessment of the Company's going concern, together with sufficient and appropriate evidence, the Company believes that there will be reasonable basis upon which disclaimer of opinion would to be removed in connection with the audit of the consolidated financial statements of the Group for the year ending 31 December 2020.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The 2019 Audited Annual Results have been reviewed and agreed by the audit committee of the Company and were approved by the Board on 29 June 2020. The audit committee has discussed with the management the accounting principles and practices adopted by the Group, and its internal control, risk management system and financial reporting matters. The audit committee is of the opinion that the audited consolidated financial statements of the Group for the year ended 31 December 2019 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2019 is expected to be despatched to shareholders of the Company on 7 July 2020.

ANNUAL GENERAL MEETING (“AGM”)

The AGM of the Company will be held on 7 August 2020 (Friday) and the notice convening such meeting will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 August 2020 (Tuesday) to 7 August 2020 (Friday) (both days inclusive), during which period no transfers of shares will be registered. To determine the entitlement to attend and vote at the AGM of the Company, all transfer document, accompanied by the relevant share certificates, must be lodged with the Company’s Branch Share Registrars in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road North Point, Hong Kong for registration not later than 4:30 p.m. on 3 August 2020 (Monday).

By Order of the Board
Hon Corporation Limited
Ho Lien Hwai

Executive Director and Chief Executive Officer

Singapore, 29 June 2020

As at the date of this announcement, the executive Directors are Mr. Ho Lien Hwai and Ms. Teng Ley Peng; the non-executive Directors are Mr. Toh Hock Ghim and Mr. Luo Jiakun; and the independent non-executive Directors are Mr. Lau Wang Lap, Ms. Luk Huen Ling Claire, Mr. Mahtani Bhagwandas and Mr. Ong Kim Huat.

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 of Hong Kong Limited 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 Company Announcements” page on GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company’s website at www.honindustries.com.sg.