Khoon Group Limited
坤集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 924)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus of Khoon Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") dated 20 June 2019 (the "**Prospectus**") in relation to the proposed use of the net proceeds from the Share Offer (the "**Net Proceeds**"), the 2019/2020 interim report of the Group published on 26 March 2020 in relation to the utilisation of the Net Proceeds from the Listing Date up to 31 December 2019 and the voluntary announcements dated 16 April 2020 and 22 April 2020 with regards to business/further business updates in relation to the recent outbreak of the novel coronavirus ("**COVID-19**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Prospectus.

USE OF PROCEEDS

The Net Proceeds, after deducting the underwriting commissions and expenses payable by the Company in relation to the Share Offer, were approximately S$16.6 million (equivalent to approximately HK$95.0 million). As disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Net Proceeds were originally intended to be applied by the Group for the following purposes (adjusted on a pro-rata basis according to the final Offer Price and the actual Net Proceeds received):

(i) approximately S$7.1 million, representing 42.7% of the Net Proceeds, was intended to be used for the acquisition of a Singapore-based ACMV contractor which is registered under the workhead of ME01 (air-conditioning, refrigeration and ventilation works) with at least "L4" grade;

(ii) approximately S$2.5 million, representing 15.3% of the Net Proceeds, was intended to be used for strengthening the manpower of the Group by recruiting additional staff;

(iii) approximately S$1.8 million, representing 10.9% of the Net Proceeds, was intended to be used for expanding the Group's premises for its various operational needs;

(iv) approximately S$1.7 million, representing 10.0% of the Net Proceeds, was intended to be used for financing the Group's upfront costs and working capital requirements at the early stage of carrying out its electrical engineering projects;

(v) approximately S$1.4 million, representing 8.4% of the Net Proceeds, was intended to be used for financing the acquisition of additional machinery and equipment;

(vi) approximately S$0.9 million, representing 5.4% of the Net Proceeds, was intended to be used for purchasing a building information modeling software together with certain ancillary supporting hardware device and upgrading the Group's enterprise resource planning system;

(vii) approximately S$0.3 million, representing 1.7% of the Net Proceeds, was intended to be used for financing the acquisition of additional lorries; and

(viii) approximately S$0.9 million, representing 5.6% of the Net Proceeds, was intended to be reserved as the Group's general working capital.

Since the Listing Date and up to the date of this announcement, the Group has utilised approximately S$3.1 million (equivalent to approximately HK$17.7 million) of the Net Proceeds for (i) strengthening its manpower by recruiting additional staff, (ii) financing its upfront costs and working capital requirements for its new projects, (iii) acquisition of additional lorry and (iv) its general working capital purposes, which is in line with the purposes shown above.

As at the date of this announcement, approximately S$13.5 million (equivalent to approximately HK$77.3 million) of the Net Proceeds remains unutilised, representing approximately 81.3% of the Net Proceeds (the "**Unutilised Net Proceeds**").

CHANGE IN USE OF NET PROCEEDS

For reasons set out in the paragraph headed "Reasons for and Benefits of the Change in Use of Proceeds" of this announcement, the Board has resolved to change the use of Net Proceeds as follows: approximately 48.2% of the Net Proceeds in an amount of approximately S$8.0 million (equivalent to approximately HK$45.8 million), which were originally allocated for items (i) – (iii) and (v) – (vi) above, will be re-allocated to supplement the upfront project costs and general working capital of the Group, as set out in items (iv) and (viii) above respectively. The utilisation of the Net Proceeds up to the date of this announcement and the proposed use of Unutilised Net Proceeds after reallocation are set out as follows:

		Planned use of Net Proceeds as disclosed in the Prospectus *S$ million* (approximately)	Utilised Net Proceeds up to the date of this announcement *S$ million* (approximately)	Unutilised Net Proceeds up to the date of this announcement *S$ million* (approximately)	Proposed re-allocation of the Unutilised Net Proceeds *S$ million* (approximately)	Proposed application of the Unutilised Net Proceeds *S$ million* (approximately)
(i)	Acquisition of a Singapore-based ACMV contractor which is registered under the workhead of ME01 (air-conditioning, refrigeration and ventilation works) with at least "L4" grade	7.1	0.0	7.1	(3.6)	3.5
(ii)	Strengthening the Group's manpower by recruiting additional staff	2.5	0.2	2.3	(1.5)	0.8
(iii)	Expanding the Group's premises for its various operational needs	1.8	0.0	1.8	(1.8)	–

	Planned use of Net Proceeds as disclosed in the Prospectus *S$ million* (approximately)	Utilised Net Proceeds up to the date of this announcement *S$ million* (approximately)	Unutilised Net Proceeds up to the date of this announcement *S$ million* (approximately)	Proposed re-allocation of the Unutilised Net Proceeds *S$ million* (approximately)	Proposed application of the Unutilised Net Proceeds *S$ million* (approximately)
(iv) Financing the Group's upfront costs and working capital requirements at the early stage of carrying out its electrical engineering projects					
(a) Projects newly awarded to the Group after the Listing	1.7	1.7	0.0	+3.5	3.5
(b) New potential projects which the Group has submitted tenders	0.0	0.0	0.0	+3.0	3.0
(v) Financing the acquisition of additional machinery and equipment	1.4	0.1	1.3	(0.7)	0.6
(vi) Purchasing a building information modeling software together with certain ancillary supporting hardware device and upgrading the Group's enterprise resource planning system	0.9	0.1	0.8	(0.4)	0.4
(vii) Financing the acquisition of additional lorries	0.3	0.1	0.2	–	0.2
(viii) Reserved as the Group's general working capital	0.9	0.9	0.0	+1.5	1.5
Total	16.6	3.1	13.5	–	13.5

Note: Any discrepancies in this table between totals and sums of amounts listed herein are due to rounding.

Save for the aforesaid changes, there are no other changes in the use of the Net Proceeds.

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

COVID-19 Pandemic's Impact on Global and Singapore Economy

The global spread of COVID-19 had sparked a global economic tsunami, disrupting the market, production and supply chains everywhere. With countries locking down, the supply of labours and materials had been at a standstill. The Singapore economy had contracted by 2.2% year-on-year in the first quarter of 2020. This is the worst contraction since the global financial crisis in 2009 and had triggered the Ministry of Trade and Industry of Singapore ("**MTI**") to further downgrade Singapore's gross domestic product growth forecast for 2020 to between -4.0% and -1.0% in March 2020.

The construction sector in Singapore took the largest hit in the first quarter of 2020, with estimates by MTI showed a shrink of 4.3% year-on-year. Further, on 3 April 2020, the Ministry of Health of Singapore ("**MOH**") issued a press release on "Circuit Breaker to Minimise Further Spread of COVID-19" which outlined enhanced safe distancing measures, including the closure of workplace premises, as a circuit breaker to pre-empt the trend of further local transmission of COVID-19 in Singapore. The MOH issued another press release on 21 April 2020 titled "Strong National Push to Stem Spread of COVID-19" which outlined tighter measures to further reduce the local transmission of COVID-19 in Singapore. During the circuit breaker period, which is from 7 April 2020 to 1 June 2020 as at the date of this announcement, apart from essential services and their related supply chains, business activities that cannot be conducted through telecommuting or other means from home shall be suspended (the "**Suspension**").

The Group's principal place of business is in Singapore and the principal activities of the Group are provision of electrical engineering services for both public and private sector projects. Construction works are identified as non-essential according to the enhanced safe distancing measures as mentioned above, and therefore during the circuit breaker period, all of the Group's construction sites are being halted, resulting in a slowdown in the progress of the Group's electrical engineering works.

The overall construction sector in Singapore is expected to take an even greater hit consequently, as many industry participants are still required to bear operating costs such as staff costs, foreign workers' accommodation costs, etc. Market players in the Singapore construction industry are generally expected to face an unprecedented challenge brought about by the COVID-19 pandemic.

As the global COVID-19 situation is still evolving rapidly, there remains a significant degree of uncertainty over the severity and duration of the global outbreak, as well as the trajectory of the global economic recovery once the outbreak has been contained.

Having monitored and assessed the current impact brought by the COVID-19 pandemic, the Board had resolved to change the use of the Unutilised Net Proceeds having considered the following factors:

(a) Increase in upfront project costs for contracts newly awarded to the Group after the Listing

The Group was listed on the Main Board of the Stock Exchange on 5 July 2019. The Listing has raised the Group's profile and the additional capital raised has further strengthened the Group's presence in the M&E industry in Singapore, as evidenced by the Group obtaining nine new projects with aggregate contracts sum of approximately S$35.0 million (the "**Newly Awarded Projects**") over a span of ten months subsequent to the Group's Listing and up to the date of this announcement.

In typical economic climate and circumstances, the Group's upfront costs required for new project would be approximately 10% of the contract sum for the project. Given the current economic climate as mentioned above, the Group estimates that the upfront costs would be increased to approximately 15% of the contract sum for the project. Accordingly, upfront costs of approximately S$5.2 million would be required for the Newly Awarded Projects before the receipt of the first progress payment from the Group's customers.

As at the date of this announcement, the Group did not receive the first progress payment from the Group's customers on these Newly Awarded Projects and continued to incur upfront costs. The Group has already fully utilised approximately S$1.7 million from the Net Proceeds for a portion of the upfront costs of the Newly Awarded Projects and would require an additional amount of approximately S$3.5 million. Hence, the Group will be re-allocating an amount of approximately S$3.5 million from the Unutilised Net Proceeds to supplement the upfront costs of the Newly Awarded Projects.

(b) Increase in upfront project costs for potential projects which the Group has submitted tenders

The Group has submitted tenders for 16 projects with aggregate tender sum of approximately S$83.0 million and the results of which were pending as at the date of this announcement. Based on the Group's average tender success rate for the past three years (approximately 30.2%) and the estimated upfront costs required for new projects (approximately 15%), the Group would require further upfront project costs of approximately S$3.8 million to undertake the new potential projects. Based on the expected commencement date of these potential projects, the Directors expect that the Group will start to incur upfront project costs by June 2020 if the Group secures these new projects.

Hence, the Group will be re-allocating an amount of S$3.0 million from the Unutilised Net Proceeds to supplement the upfront project costs for new potential projects. The Group will finance the shortfall by using its own internal resources.

(c) ***Increase in general working capital requirement due to shortage of materials and labour and cashflow implications***

In view of the aforesaid Suspension and disruption to the supply chains, the Group is already experiencing shortage of materials in the market. In order to secure the limited supply of materials for the existing projects to meet critical project timeline, the Group had been requested by its suppliers for advance payment prior to delivery.

Further, the supply chain disruptions have also caused major cashflow issues among market players. The Group is also experiencing slowdown in the payment cycle from its customers. The Group's smaller subcontractors are also likely to encounter liquidity problems in a couple of months if the COVID-19 crisis does not abate and in order to secure their commitment to work for its existing projects, the Group has been settling their progress claims earlier to subsidise their operating costs.

As governments worldwide implemented various lockdown measures and travelling restrictions on their nationals, the recruitment and employment of foreign employees in Singapore has been significantly hindered. In the past few years, over 80% of the Group's employees were foreign labour. As the foreign labour supply is expected to shrink until the outbreak of COVID-19 fully subsides, the Group foresees keener competition for hiring and/or retaining skilled foreign workers once the circuit breaker measures are lifted. Going forward, the Board considers that it is more prudent to reserve a high level of working capital for the potential upsurge in the wages of foreign workers.

As a result of the above, the Group estimates that greater working capital is required for both new and existing projects. Based on the current backlog of existing projects, the Group estimates that it would require approximately S$1.5 million as general working capital to fund the above.

The Group has already fully utilised approximately S$0.9 million from the Net Proceeds for its general working capital. Hence, in order to strengthen the Group's liquidity position and mitigate the impact from the COVID-19 pandemic, the Group will be re-allocating an amount of approximately S$1.5 million from the Unutilised Net Proceeds to supplement the Group's general working capital.

(d) ***Decrease in the amount for strategic acquisition of the Singapore-based ACMV contractor***

Upon further research and assessment, except for the four Potential Target Companies as disclosed in the Prospectus, the Group currently has not yet identified any Singapore-based ACMV contractor as suitable acquisition targets as at the date of this announcement. Moreover, given the current economic climate during this unprecedented period, the Board is of the view that it is not an opportune time to make any acquisition for the time being. As mentioned in the Prospectus, one of our selection criteria is that the acquisition target shall be available for sale at a price-to-earnings ratio of approximately six times. In light of the impact of the COVID-19 pandemic, the Board expects that the financial performance of ACMV contractors in Singapore would likely deteriorate. As such, the Board believes that the market value of any potential targets to be reduced significantly in the foreseeable future and this would present the opportunities for the Group to make an acquisition at a lower cost.

However, the Group maintains its strategy to position itself as an integrated service provider in the M&E industry in Singapore by applying for registration under the workhead of ME15 (integrated building services) with "L6" grade. Thus, the Group will continue to pursue suitable acquisition targets at a later stage when the economy recovers after the COVID-19 pandemic and in the event that the cost of the Strategic Acquisition exceeds S$3.5 million, the Group will finance the shortfall by using its own internal resources.

(e) Certain business strategies can be delayed to a later stage

In order to mitigate the immediate impact to the Group's operation as a result of the COVID-19 crisis, as mentioned above, the Directors considered that the primary objective of the Group is to continue the work of the existing projects with sufficient working capital. Thus, certain business strategies, such as (i) strengthening the Group's manpower by recruiting additional staff, (ii) financing the acquisition of additional machinery and equipment, and (iii) purchasing a building information modelling software can be delayed to a later stage as these strategies are for the expansion of the Group in the long run.

Also, given that the current premises rented by the Group will only expire in the fourth quarter of 2021, it will be less urgent for the Group to utilise the Net Proceeds to expand its premises during the current economic downturn.

THE BOARD'S VIEWS

As the Group has strengthened its market presence in the M&E industry in Singapore and in view of the global COVID-19 pandemic, the Board is of the view that the current priority should be to strengthen its position in the market and focus on finishing the existing and new potential projects. To that end, the Group would require more working capital and upfront project costs to provide strong support for the secured and potential projects in the pipeline.

Based on the interests of the Group and the Shareholders as a whole, and in order to strengthen the efficiency and effectiveness of capital use, the use of proceeds is appropriately adjusted to better meet the current economic climate and business needs of the Group. This would also enable the Group to invest its financial resources in a more beneficial and effective way so as to capture potential business opportunities.

The re-allocation of 48.2% of the Net Proceeds in an amount of approximately S$8.0 million to supplement the working capital and upfront project costs is more beneficial to the Group's operation needs in combatting the impacts and challenges brought about by the COVID-19 pandemic.

The Board considers that the change in the use of the Net Proceeds is fair and reasonable, which allows the Group to meet its financial needs more efficiently and flexibly. The Board is of the view that the business development direction of the Group is still in line with the disclosure in the Prospectus in spite of such change in the use of Net Proceeds as stated above. The aforesaid change in the use of Net Proceeds from the Share Offer is in the interests of the Group and the Shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group.

The Directors will continuously assess the plans for the use of the Net Proceeds and may revise or amend such plans where necessary, to cope with the changing market conditions and strive for better business performance for 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
Khoon Group Limited
Ang Jui Khoon
Chairman and Executive Director

Hong Kong, 13 May 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Ang Jui Khoon, Mr. Ang Kok Kwang (Hong Guoguang) and Mr. Ang Yong Kwang (Hong Yongquan); and three independent non-executive Directors, namely Ms. Tan Pei Fung, Mr. Yeo Kwang Maccann and Mr. Hon Chin Kheong (Han Zhenqiang).