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Khoon Group Limited
坤集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 924)

FURTHER CHANGE IN USE OF PROCEEDS

Reference is made to the (i) 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**”); (ii) the announcement of the Company dated 13 May 2020 (the “**Announcement**”) in relation to the change in use of the Net Proceeds; and (iii) the interim report of the Group for the six months ended 31 December 2021 (the “**Interim Report**”) in relation to the utilisation of the Net Proceeds from the Listing Date up to 31 December 2021. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Prospectus and the Announcement.

PREVIOUS CHANGE IN USE OF NET PROCEEDS

As disclosed in the Announcement, the unutilised Net Proceeds amounted to approximately S\$13.5 million as at 13 May 2020 and the Board has reallocated part of the unutilised Net Proceeds in the amount of approximately S\$8.0 million: (i) for financing the Group’s upfront costs and working capital requirements at the early stage of carrying out its electrical engineering projects; and (ii) reserved as the Group’s general working capital. Please refer to the Announcement for a detailed breakdown of the revised use of Net Proceeds.

FURTHER CHANGE IN USE OF NET PROCEEDS

According to the Interim Report, the unutilised Net Proceeds amounted to approximately S\$4.8 million (“**Unutilised Net Proceeds**”) as at 31 December 2021. After due and careful consideration on the prevailing business environment and development needs of the Group, the Board has resolved to further change the use of approximately S\$3.5 million originally designated for the acquisition of a Singapore-based air-conditioning and mechanical ventilation (“**ACMV**”) contractor, and reallocate the sum to finance the Group’s upfront costs and working capital requirements at the early stage of carrying out its new potential electrical engineering projects.

Set out below are details of the revised allocation of the Net Proceeds as disclosed in the Announcement, the amount of the utilised and unutilised Net Proceeds as at the date of this announcement and the further revised allocation of the Unutilised Net Proceeds:

	Revised allocation of the Net Proceeds as disclosed in the Announcement <i>S\$ million</i>	Further revised allocation of the Net Proceeds as disclosed in this announcement <i>S\$ million</i>	Utilised Net Proceeds up to the date of this announcement <i>S\$ million</i>	Unutilised Net Proceeds up to the date of this announcement <i>S\$ million</i>
(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	3.5	–	–	–
(ii) Strengthening the Group’s manpower by recruiting additional staff	1.0	1.0	0.8	0.2
(iii) Expanding the Group’s premises for its various operational needs	–	–	–	–
(iv) Financing the Group’s upfront costs and working capital requirements at the early stage of carrying out its electrical engineering projects (<i>existing projects</i>)	5.2	5.2	5.2	–
(v) Financing the Group’s upfront costs and working capital requirements at the early stage of carrying out its electrical engineering projects (<i>new potential projects</i>)	3.0	6.5	3.0	3.5
(vi) Financing the acquisition of additional machinery and equipment	0.7	0.7	0.2	0.5
(vii) Purchasing a building information modeling software together with certain ancillary supporting hardware device and upgrading the Group’s enterprise resource planning system	0.5	0.5	0.3	0.2
(viii) Financing the acquisition of additional lorries	0.3	0.3	0.2	0.1
(ix) Reserved as the Group’s general working capital	2.4	2.4	2.4	–
Total	16.6	16.6	12.1	4.5

Following the further revised allocation as set out above, the Company expects that the unutilised Net Proceeds would be fully utilised by June 2023.

REASONS FOR FURTHER CHANGE IN USE OF PROCEEDS

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

Since the outbreak of COVID-19 in Singapore, the Singapore Government has announced various measures, including travel restrictions and safe distancing measures in order to reduce the risk of local transmission of COVID-19. In particular, the Singapore Government imposed the Circuit Breaker Measures from 7 April 2020 to 1 June 2020 (both dates inclusive) (the “**Circuit Breaker Measures**”) during which a majority of the Group’s construction projects was halted and resulted in a significant slowdown in the progress of the Group’s electrical engineering works. The majority of the Group’s projects have resumed works from August/September 2020.

Since the resumption of works from the Circuit Breaker Measures, the Group has recorded continual increase in the value of its backlog projects mainly due to the gradual recovery of the construction industry in Singapore. According to the Ministry of Manpower of Singapore, the Singapore construction industry in June 2022 has recovered by 95% as compared to the pre-pandemic levels. According to the annual report of the Company for the year ended 30 June 2021, the value of the Group’s backlog projects increased by approximately 22.9%, from approximately S\$64.1 million as at 30 June 2020 to approximately S\$78.8 million as at 30 June 2021. The value of the Group’s backlog projects continued to increase during the six months ended 31 December 2021. According to the Interim Report, the value of the Group’s backlog projects significantly increased by approximately 66.9%, from approximately S\$59.3 million as at 31 December 2020 to approximately S\$99.0 million as at 31 December 2021. Since 1 January 2022 up to the date of this announcement, the Group was awarded with six additional projects with total contract sum of approximately S\$53.1 million in aggregate. As at the date of this announcement, the Group has tendered for six projects with aggregate tendered sum of approximately S\$61.8 million, the result of which are still pending.

Subsequent to the Circuit Breaker Measures, there were several rounds of resurgence of COVID-19 variants in Singapore. The management of the Group was aware that despite the resumption of works from the Circuit Breaker Measures, the period required by the Group’s customer to certify and approve payments remained to be longer than those times before the COVID-19 outbreak in Singapore. While the Group has used reasonable endeavours to follow up and liaise with its customers during the certification process, it was noticed that main contractors had, in general, become more cost-conscious and conservative with budget management, thereby prolonging the certification and approval process of payment to their subcontractors. Meanwhile, the Group has, to the extent permissible, maintained its existing payment patterns to its subcontractors with a view to ensure their timely performance of works and maintain a stable and amicable working relationships with them.

Amid the increase in the project backlog, coupled with the prolongation in the payment certification and approval process on the part of its customers, the Group expects a further increase in its working capital needs as all of its newly obtained projects commence. The Group normally incurs net cash outflows at the early stage of carrying out a project to cover a variety of up-front costs and expenses including subcontracting charges, costs of materials and other costs associated with site preparation. The cash flow requirements during such up-front period together with the availability of internal resources would therefore impose a constraint on the number of projects the Group could undertake. Based on its internal assessment, the six additional projects obtained by the Group since 1 January 2022, the six tendered projects which are still pending results and other on-going projects would tie-up a significant amount of financial resources of the Group, and this, in turn, would impose limitation on the Group's financial ability to respond to new tender invitations going forward. With a view to seize new business opportunities amid the recovery of Singapore construction industry, the management of the Group considers that there is a genuine need to reserve more cash resources to support the up-front costs requirements of its new potential projects.

(b) Maintaining strong focus on the electrical engineering market for the time being

Since its successful listing on the Stock Exchange in 2019, the Company has continuously identified and explored suitable potential acquisition targets of ACMV contractors in Singapore. Nevertheless, as mentioned in the Announcement, given the significant socio-economic impact of the COVID-19 in Singapore, the Company considered that it was then appropriate to pursue the acquisition at a later stage when the economy recovers after the pandemic. To the best of their knowledge after conducting reasonable enquiries, the Group's management observe that a large number of players in the Singapore ACMV market have suffered deterioration of varying degrees in their operating results and financial performance as a result of the COVID-19 outbreak. Therefore, even if potential acquisition targets were identified, it would be prudent to take time to observe whether their performance could resume to pre-pandemic level. In light of the significant increase in the Group's backlog for electrical engineering projects, it is preferable for the Group to maintain a strong focus on the electrical engineering market for the time being. While the Group remains positive about the prospects of ACMV market in the long run, the management takes the view that, at this juncture, it would be financially prudent for the Group to reserve more of its cash resources for meeting the liquidity needs of its on-going and potential projects in order to maintain and enhance its market share in the electrical engineering market. Depending on the financial position and projects backlog of the Group as well as the prevailing conditions of the ACMV market, the Board may consider gradually building up its own ACMV team with internal resources generated from its operations in due course.

The Board considers that the further 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 the 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 Board 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 the Announcement and set out above in this announcement, there are no other changes to the use of the Net Proceeds.

By Order of the Board
Khoon Group Limited
Ang Jui Khoon
Chairman and Executive Director

Hong Kong, 19 September 2022

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. Leung Wing Chi Kylie, Mr. Yeo Kwang Maccann and Mr. Hon Chin Kheong (Han Zhenqiang).

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.