HON CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8259

Interim Report
2019

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of Hon Corporation Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (together, the "Group"). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report 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 report misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ho Lien Hwai
(Chairman and Chief Executive Officer)
Ms. Ng Mei Yun
Mr. Lim Shi Min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Chye Kim
Mr. Lau Wang Lap
Mr. Chan Shun Yin

AUDIT COMMITTEE

Mr. Lau Wang Lap *(Chairman)*
Mr. Ng Chye Kim
Mr. Chan Shun Yin

REMUNERATION COMMITTEE

Mr. Ng Chye Kim *(Chairman)*
Mr. Ho Lien Hwai
Mr. Chan Shun Yin

NOMINATION COMMITTEE

Mr. Chan Shun Yin *(Chairman)*
Ms. Ng Mei Yun
Mr. Lau Wang Lap

COMPANY SECRETARY

Mr. Ng Chit Sing

AUTHORIZED REPRESENTATIVES

Mr. Ho Lien Hwai
Mr. Ng Chit Sing

COMPLIANCE OFFICER

Mr. Ho Lien Hwai

REGISTERED OFFICE

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Cayman Islands

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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Cricket Square
Hutchins Drive
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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(change of address with effect from 11 July 2019)

STOCK CODE

8259

COMPANY WEBSITE

www.honindustries.com.sg

FINANCIAL HIGHLIGHTS

Revenue of the Group for the six months ended 30 June 2019 amounted to approximately S$38.8 million, representing a decrease of approximately 23.3% from approximately S$50.6 million over the corresponding period of the previous year.

Gross profit of the Group for the six months ended 30 June 2019 amounted to approximately S$3.7 million, representing a decrease of approximately 24.5% from approximately S$4.9 million over the corresponding period of the previous year. The gross profit margin of the Group for the six months ended 30 June 2019 and 2018 was largely consistent at 9.4% and 9.6% respectively.

Profit attributable to equity holders of the Company for the six months ended 30 June 2019 amounted to approximately S$3,000, representing an increase of approximately S$245,000 from a loss attributable to equity holders of the Company of approximately S$242,000 for the six months ended 30 June 2018. Excluding the one-off listing expenses of approximately S$2.0 million incurred during the six months ended 30 June 2018, the adjusted profit attributable to equity holders of the Company for the six months ended 30 June 2018 would be approximately S$1.7 million.

Earnings per share for the six months ended 30 June 2019 was approximately S$0.001 cent as compared with the loss per share of approximately S$0.067 cents for the six months ended 30 June 2018.

The Board has resolved not to declare any interim dividend for six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

The construction sector continues to be hard-hit by a double whammy of sluggish demand and overall delayed payment. The Straits Times, an English-language daily broadcast newspaper based in Singapore, forecasts the construction sector shrank approximately 7.6% from last quarter ended 31 March 2019 and also faced the risk of more housing market cooling measures implemented by the government authorities in Singapore during the six months ended 30 June 2019.

BUSINESS REVIEW AND PROSPECT

The core business and revenue structure of the Group has remained unchanged for the six months ended 30 June 2019. The Group's operations are located in Singapore and our revenue and profit from operations are solely derived from services rendered within Singapore. The Group is actively involved as a main contractor in both private and public sector projects which include being aware of tender invitation institutional, industrial, commercial and residential projects. The revenue was principally derived from project works for our (i) building and infrastructure projects; (ii) interior decoration projects; and (iii) term contracts.

Our business strategies remained unchanged and management proactively submitted tenders (public or private) upon being aware of tender invitation. The Group has remained focused on driving sales for the existing projects, while keeping a close watch on market conditions and navigating through cyclical challenged during the six months ended 30 June 2019.

Looking ahead, building contractors expect business outlook to be less favourable which resulted in intense competition due to decline in tender opportunities to secure new projects. Notwithstanding the challenging construction market sentiments, the Group will capitalise on our strong fundamentals, established construction track record and leverage on our competitive advantages to continue tender and secure new projects.

COMPLETED PROJECTS

During the six months ended 30 June 2019, the Group had completed one building and infrastructure project with an aggregated contract value of approximately S$76.0 million.

ONGOING PROJECTS

As at 30 June 2019, the Group had eleven ongoing building and infrastructure projects, two interior decoration projects, and seven term contracts with an aggregate contract sum of approximately S$325.7 million, of which approximately S$159.3 million has been recognised as revenue as at 30 June 2019. The remaining balance will be recognised as our revenue in accordance with the stage of completion.

The management considered that all of the ongoing projects were on schedule and none of which would cause the Group to indemnify the third parties and increase the contingent liabilities as at 30 June 2019. Details of the ongoing projects as at 30 June 2019 are as follows:

Sector	**Project name**	**Scope of work**	**Contract sum** S$ million
Private	Project International School	Building and infrastructure — proposed erection of new international school building	83.6
Public	Project Residential	Building and infrastructure — proposed construction and modification of electrical substations and common switch rooms	6.8
Public	Project Housing	Building and infrastructure — proposed upgrading and contingency works for residential project	21.9
Public	Project Education	Term contract — renovations and A&A works to facilities	21.1
Public	Project Government Centre	Term contract — A&A works and maintenance works	44.4
Public	Project Committee Centre	Term contract — upgrading and extension works to committee centres	2.0
Public	Project Park Connector	Term contract — upgrading works in park connectors	8.7
Private	Project Clubhouse	Building and infrastructure — proposed A&A works	4.4

Sector	Project name	Scope of work	Contract sum S$ million
Private	Project Workshop	Building and infrastructure — proposed development of existing building and addition of two-storey workshop	3.7
Public	Project Community Club	Term contract — servicing and maintenance works at community club	0.9
Public	Project Polytechnic	Interior decoration — proposed A&A works to existing block and convention centre	5.9
Public	Project Upgrading	Term contract — upgrading works for parks, open spaces and park connectors	15.5
Public	Project University	Term contract — building services and maintenance works	14.8
Private	Project Church	Building and infrastructure — proposed A&A works to existing building	7.4
Private	Project Hotel (Note 1)	Building and infrastructure — proposed A&A works for change of use to existing commercial building to hotel	17.5
Public	Project Government (Note 1)	Building and infrastructure — construction of reinforced concrete building, steel structure and ancillary works	46.2

Sector	Project name	Scope of work	Contract sum S$ million
Private	Project Private Residential 1 (Note 1)	Interior decoration — proposed A&A works to existing detached dwelling house with basement	1.6
Private	Project Private Residential 2 (Note 1)	Building and infrastructure — proposed erection of strata landed housing development	13.3
Public	Project Housing Development Board (Note 1)	Building and Infrastructure — Mechanical & Electrical Cyclical Improvement Works	5.5
Private	Project Social Care (Note 1)	Building and Infrastructure — Life Cycle Replacement of Domestic Water System	0.5

Note 1 Newly awarded projects during the six months ended 30 June 2019.

NEWLY AWARDED PROJECTS

During the six months ended 30 June 2019, the Group had secured five building and infrastructure projects and one interior decoration project. Details of the projects are included in the table sets forth our ongoing projects as at 30 June 2019 above. The aggregated contract value of the newly awarded contracts amounted to approximately S$84.6 million.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of the Group's revenue, the number of projects/contracts performed and the percentage contribution to total revenue for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June					
	2019			2018		
	Number of projects/ contracts	Revenue (S$'000) (unaudited)	% of revenue (%)	Number of projects/ contracts	Revenue (S$'000) (unaudited)	% of revenue (%)
Building and infrastructure projects	11	23,928	62%	4	37,982	75%
Interior decoration projects	2	3,646	9%	2	2,827	6%
Term contracts	7	11,248	29%	4	9,780	19%
Total	20	38,822	100%	10	50,589	100%

Revenue of the Group for the six months ended 30 June 2019 amounted to approximately S$38.8 million, representing a decrease of approximately 23.3% from approximately S$50.6 million over the corresponding period of the previous year. The decrease in our revenue was mainly due to:

(i) Decrease in revenue due to the substantial completion of a major building and infrastructure project, Project International School, during the third quarter for the year ended 31 December 2018; and

(ii) Decrease in revenue from another major building and infrastructure project, Project Park, as significant portion of revenue had been recognised for the year ended 31 December 2018.

The effect of the above was partially offset by revenue contributed from the six newly awarded projects for the six months ended 30 June 2019. However, as some of these newly awarded projects are at their early stage, there was only little recognition of revenue for the six months ended 30 June 2019. Nonetheless, the Company expects higher revenue contribution from these projects over the remaining period for the year ending 31 December 2019 as a result of accelerated project work plans.

Cost of Services

Cost of services of the Group refer to costs that are directly related to our project works such as subcontracting costs, material costs, staff costs, and overheads. Cost of services for the six months ended 30 June 2019 amounted to approximately S$35.2 million, representing a decrease of approximately 23.0% from approximately S$45.7 million over the corresponding period of the previous year, which was generally in line with our decrease in revenue during the six months ended 30 June 2019.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the six months ended 30 June 2019 amounted to approximately S$3.7 million, representing a decrease of approximately 24.5% as compared with approximately S$4.9 million for the corresponding period of the previous year. Notwithstanding the decrease in gross profit, the gross profit margin of the Group for the six months ended 30 June 2019 and 2018 was largely consistent at 9.4% and 9.6% respectively.

Other Income

The other income of the Group decreased by approximately S$304,000 or 53.8% from approximately S$565,000 for the six months ended 30 June 2018 to approximately S$261,000 for the six months ended 30 June 2019. The decreased was mainly due to decrease in sales of scrap materials by approximately S$212,000 and decrease in rental income by approximately S$111,000 during the six months ended 30 June 2019.

Other Gains and Losses

The other gains or losses of the Group comprised mainly allowance for credit losses on trade receivables and loss on disposal of property, plant and equipment. The other losses of the Group decreased by approximately S$147,000 or 72.8% from approximately S$202,000 for the six months 30 June 2018 to approximately S$55,000 for the six months ended 30 June 2019. The decrease was mainly due to allowance for credit loss on trade receivables recognised for the six months ended 30 June 2018 while none was recognised for the six months ended 30 June 2019.

Administrative Expenses

The administrative expenses of the Group, mainly comprised of staff cost, rental expenses and professional and compliance fees, etc. The administrative expenses of the Group decreased by approximately S$1.3 million or approximately 27.7% from approximately S$4.7 million for the six months ended 30 June 2018 to approximately S$3.4 million for the six months ended 30 June 2019. The decrease was mainly attributable to the one-off listing expenses of approximately S$2.0 million incurred during the six months ended 30 June 2018 in relation to the Company's listing on GEM of the Stock Exchange on 7 November 2018.

Finance Costs

The finance costs of the Group comprised mainly interest expenses on borrowings and bills payables from bank and finance leases for certain motor vehicles, plant and machinery and office equipment. The finance costs of the Group increased by approximately S$99,000 or approximately 30.3% from approximately S$327,000 for the six months ended 30 June 2018 to approximately S$426,000 for the six months ended 30 June 2019. The increase was mainly attributable to higher utilization of bills payables during the six months ended 30 June 2019 to finance payments to our subcontractors on completed projects.

Income Tax Expenses

The income tax expenses of the Group decreased from approximately S$415,000 for the six months ended 30 June 2018 to approximately S$52,000 for the six months ended 30 June 2019. The decrease was mainly attributable to the decrease in assessable profits.

Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company for the six months ended 30 June 2019 amounted to approximately S$3,000, representing an increase of approximately S$245,000 from a loss attributable to equity holders of the Company of approximately S$242,000 for the six months ended 30 June 2018.

Excluding the one-off listing expenses of approximately S$2.0 million incurred during the six months ended 30 June 2018, the adjusted profit attributable to equity holders of the Company for the six months ended 30 June 2018 would be approximately S$1.7 million.

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

Liquidity and Financial Resources

The Group finances its daily operations through a combination of internally-generated funds from operations, borrowings and net proceeds from the share offer. As at 30 June 2019, the Group had cash and cash equivalents of approximately S$93,000 (31 December 2018: approximately S$5.0 million). The significant decrease in cash and cash equivalents was mainly attributable to placement of pledged deposits with certain bank to secure bank facilities, prepayment to certain subcontractor for newly awarded projects and more prompt payment to our trade payables.

The total interest-bearing borrowings, including bank overdraft, bank borrowings, bills payables and obligations under finance leases was approximately S$23.7 million (31 December 2018: approximately S$19.7 million). The current ratio, being the ratio of current assets to current liabilities was approximately 1.2 times as at 30 June 2019 (31 December 2018: approximately 1.2 time). As at 30 June 2019, the gearing ratio of the Group was 1.1 times (31 December 2018: 0.9 times). The gearing ratio is calculated as total debts (borrowings, finance lease obligations, and bills payables) divided by total equity.

Pledge of Assets

As at 30 June 2019,

(a) the Group had pledged bank fixed deposits of approximately S$3.3 million (31 December 2018: S$0.8 million) as collateral to securing certain bills payables and borrowings granted to the Group;

(b) the Group's properties with an aggregate carrying value of approximately S$12.1 million (31 December 2018: S$12.3 million) were also pledged for mortgage to secure certain bank loans, bills payables and borrowings granted to the Group; and

(c) the Group's obligation under a finance lease was secured by the lessor's title to the leased asset, which had a carrying amount of approximately S$1.8 million (31 December 2018: S$1.6 million).

Foreign Exchange Exposure

For the six months ended 30 June 2019, the headquarters and principal place of business of the Group is in Singapore with our revenue and cost of services mainly denominated in Singapore dollars, which is also the functional currency of all the Group's operating subsidiaries.

The Group retains insignificant amount of net proceeds from the share offer denominated in Hong Kong dollars that are minimal exposure to foreign exchange rate risks.

The Group will continue to monitor its foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. During the six months ended 30 June 2019, the Group has not entered into any agreement or commit to any financial instruments to hedge any exchange rate exposure.

Share Capital

The Company's capital comprises ordinary shares and capital reserves. The Group finances its working capital, capital expenditures and other liquidity requirements through a combination its cash and cash equivalents, cash flows generated from operations, bank facilities and net proceeds from the share offer.

Contingent Liabilities

As at 30 June 2019, the Group had an outstanding performance bond for construction contracts, which were secured by corporate guarantee given by the Company or personal guarantees given by certain Directors, amounted to approximately S$20.5 million (31 December 2018: S$14.6 million). The performance bonds are released when the construction contracts are practically completed. The Company is in the progress to release and replace all personal guarantees provided by Directors in relation to the performance bonds with corporate guarantee, which is expected to complete by the forth quarter in 2019.

Save as disclosed above and as at 30 June 2019, the Group did not have any other material contingent liabilities (31 December 2018: Nil).

Subsequent to 30 June 2019, and as at the date of this report, the Group was involved in a legal proceeding in respect of a dispute with our subcontractor for outstanding payment in respect of works performed at the Project Park worksite. However, the proceedings are still ongoing and settlement has not been reached as at the date of this report. According to the advice of the Singapore legal counsel of the Group, the Group has a legitimate and sound defence and the maximum exposure to the proceedings would be up to approximately S$0.2 million, being the total liquidated damages claimed by that subcontractor.

Commitments

As at 30 June 2019,

(a) the Group had no capital commitment (31 December 2018: S$0.3 million);

(b) the Group had operating lease commitment amounted to approximately S$254,000 in relation to the minimum rent payable under non-cancellable leases for two properties for our head office and certain office equipment under operating leases (31 December 2018: S$307,000). However the commitment has been accounted for in accordance to IFRS 16 Lease with effect from 1 January 2019 as right-of-use assets and its corresponding liability as lease liability; and

(c) the Group had future minimum rent income receivable under contracts with tenants amounted to approximately S$26,000 in relation to the Group's properties held which have committed tenants for the year ending 31 December 2019 (31 December 2018: S$51,000).

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the six months ended 30 June 2019, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

Future Plans for Material Investment and Capital Assets

Save as disclosed in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 22 October 2018 (the "Prospectus"), the Group did not have other plans for material investment or capital assets as at 30 June 2019.

Significant Investments Held

As at 30 June 2019, the Group did not hold any significant investments in equity interest in any other company (31 December 2018: Nil).

Employees and Remuneration Policies

As at 30 June 2019, the Group had a total of 189 employees (30 June 2018: 284 employees), including executive Directors. Total staff costs (including Directors' emoluments) were approximately S$3.4 million for the six months ended 30 June 2019 as compared to approximately S$4.6 million for the six months ended 30 June 2018.

The Group's employees are remunerated according to their job scope, responsibilities, and performance. On top of basic salaries, employees are also entitled to discretionary bonuses depending on their respective performance and the profitability of the Group. The Group's foreign workers are typically employed on term contracts depending on the period of their work permits, and subject to renewal based on their performance, and are remunerated according to their work skills.

The emoluments of Directors and senior management were reviewed by the remuneration committee of the Company, having regard to salaries paid by comparable companies, experience, responsibilities and performance of the Group, and approved by the Board.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2019

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of the Company is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 June 2019 (the "Period"), together with the comparative unaudited figures for the corresponding period in 2018, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2019

		For the three months ended 30 June		For the six months ended 30 June	
	Notes	**2019 S$'000 (unaudited)**	2018 S$'000 (unaudited)	**2019 S$'000 (unaudited)**	2018 S$'000 (unaudited)
Revenue	3	**17,759**	21,574	**38,822**	50,589
Cost of services		**(15,814)**	(19,671)	**(35,168)**	(45,721)
Gross profit		**1,945**	1,903	**3,654**	4,868
Other income	4	**207**	349	**261**	565
Other gains or losses	5	**(33)**	(60)	**(55)**	(202)
Administrative expenses		**(1,875)**	(1,777)	**(3,379)**	(4,731)
Finance costs	6	**(216)**	(152)	**(426)**	(327)
Profit before tax		**28**	263	**55**	173
Income tax expense	7	**(39)**	(163)	**(52)**	(415)
(Loss) Profit for the period	8	**(11)**	100	**3**	(242)
Other comprehensive income:					
Item that will not be reclassified to profit or loss:					
Gain on revaluation of properties		**–**	127	**–**	127
Total comprehensive (loss)/income for the period		**(11)**	227	**3**	(115)
(Losses) Earnings per share					
Basic and diluted (in SGD cents)	9	**(0.002)**	0.028	**0.001**	(0.067)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 S$'000 (Unaudited)	As at 31 December 2018 S$'000 (Audited)
Non-current assets			
Property, plant and equipment		**15,306**	15,165
Financial asset at fair value through profit or loss		**328**	328
		15,634	15,493
Current assets			
Trade receivables	10	**17,518**	10,635
Deposits, prepayments and other receivables	11	**4,677**	3,231
Contract assets		**33,185**	42,154
Pledged bank deposits		**3,305**	801
Bank balances and cash		**2,183**	5,765
		60,868	62,586
Current liabilities			
Trade and other payables	12	**30,808**	35,953
Bills payables		**15,082**	12,781
Contract liabilities		**59**	–
Obligations under finance leases		**324**	370
Borrowings		**2,370**	1,092
Income tax payable		**694**	1,199
		49,337	51,395
Net current assets		**11,531**	11,191
Total assets less current liabilities		**27,165**	26,684

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**As at 30 June 2019 S$'000 (Unaudited)**	As at 31 December 2018 S$'000 (Audited)
Non-current liabilities			
Obligations under finance leases		**1,019**	374
Borrowings		**4,946**	5,067
Deferred tax liabilities		**154**	200
		6,119	5,641
Net assets		**21,046**	21,043
Capital and reserves			
Share capital	13	**846**	846
Share premium		**7,722**	7,722
Merger reserves		**6,500**	6,500
Revaluation reserve		**3,042**	3,042
Retained earnings		**2,936**	2,933
Equity attributable to owners of the Company		**21,046**	21,043

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months and six months ended 30 June 2019

	Share capital S$'000	Share premium S$'000	Merger reserve S$'000	Revaluation reserve S$'000	Retained earnings S$'000	Total S$'000
At 1 January 2018 (Audited)	6,500	–	–	2,672	1,748	10,920
Loss for the period	–	–	–	–	(242)	(242)
Gain on revaluation of properties	–	–	–	127	–	127
Total comprehensive income for the period	–	–	–	127	(242)	(115)
At 30 June 2018 (unaudited)	6,500	–	–	2,799	1,506	10,805
At 1 January 2019 (Audited)	**846**	**7,722**	**6,500**	**3,042**	**2,933**	**21,043**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**3**	**3**
At 30 June 2019 (unaudited)	**846**	**7,722**	**6,500**	**3,042**	**2,936**	**21,046**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	S$'000	S$'000
	(Unaudited)	(Unaudited)
Operating activities		
Profit before taxation	**55**	173
Adjustments for:		
Finance costs	**426**	327
Interest income	**(7)**	(2)
Depreciation of property, plant and equipment	**601**	626
Loss on disposal of property, plant and equipment	**55**	60
Operating cash flows before movements in working capital	**1,130**	1,184
(Increase) decrease in trade receivables	**(6,883)**	4,204
Increase in deposits, prepayments and other receivables	**(1,446)**	(1,136)
Decrease (increase) in contract assets	**8,969**	(3,571)
Increase (decrease) in contract liabilities	**59**	(659)
(Decrease) increase in trade and other payables	**(5,145)**	3,818
Cash (used in) generated from operations	**(3,316)**	3,840
Income tax paid	**(603)**	–
Net cash (used in) from operating activities	**(3,919)**	3,840
Investing activities		
Interest received	**7**	2
Purchase of property, plant and equipment	**(145)**	(1,233)
Proceeds from disposal of property, plant and equipment	**305**	75
Proceeds from disposal of an investment property	**–**	925
Repayment from shareholders	**–**	603
Placement of pledged deposits	**(2,504)**	(97)
Net cash (used in) from investing activities	**(2,337)**	275

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	S$'000	S$'000
	(Unaudited)	(Unaudited)
Financing activities		
Interest paid	**(426)**	(327)
Increase (decrease) in bills payables	**2,301**	(2,081)
Repayment of borrowings	**(127)**	(1,526)
Repayment of obligations under finance leases	**(358)**	(484)
Net cash from (used in) financing activities	**1,390**	(4,418)
Net decrease in cash and cash equivalents	**(4,866)**	(303)
Cash and cash equivalents at beginning of the period	**4,959**	1,911
Cash and cash equivalents at end of the period	**93**	1,608
Represented by:		
Cash and cash equivalents	**2,183**	1,608
Bank overdrafts	**(2,090)**	–
	93	1,608

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company in Cayman Islands with limited liability on 8 February 2018. The registered address of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business in Singapore is at Block 20, Ang Mo Kio Industrial Park 2A, #07-33 AMK Tech link, Singapore 567761.

The Company's ultimate holding company is Bizstar Global Limited ("Bizstar Global"), a company incorporated in the British Virgin Islands ("BVI") and beneficially owned by Mr. Ho Lien Hwai ("Mr. Ho") and Mr. Lim Shi Min ("Mr. Lim").

The Company is an investment holding company and its major operating subsidiary, Hon Industries Pte Ltd ("Hon Industries"), is principally engaged in the provision of construction services.

The financial information are presented in Singapore Dollars ("S$"), which is also the functional currency of the Company.

The unaudited condensed consolidated financial information was approved by the Board of the Directors of the Company on 14 August 2019.

2. REORGANISATION AND BASIS OF PREPARATION

Pursuant to the reorganisation of the Group in connection with the listing of the shares of the Company on GEM (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 8 October 2018. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure" in the Prospectus.

The group resulting from the Reorganisation which involves interspersing investment holding companies (including the Company and Energy Turbo Limited) between Hon Industries and its controlling shareholders is continued to be controlled by the controlling shareholders and is regarded as a continuing entity. Accordingly, the Historical Financial Information has been prepared on the basis as if the Company has always been the holding company of the companies now comprising the Group throughout the Reporting Periods. The Unaudited Condensed Consolidated Financial Statement have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the Reporting Periods, or since their respective date of incorporation, where this is a shorter period.

2. REORGANISATION AND BASIS OF PREPARATION *(Continued)*

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2019, together with the unaudited comparative figures for the corresponding period in 2018 (the "Financial Information") have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). In addition, the Historical Financial Information includes applicable disclosures required by the GEM Listing Rules.

The Financial Information have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each Reporting Period and is presented in Singapore dollars ("S$"), which is the same as the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands ("S$'000"), except where otherwise indicated.

New and amendments to IFRSs that are mandatorily effective for the current period ended 30 June 2019

At the date of this report, the Group has applied the following new and amendments to IFRSs that have been issued for the first time in current period:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

The application of the new and amendments to IFRSs and Interpretations in the current period has no material impact on the Group's financial performance and positions for the current period and/or on the disclosures set out in these consolidated financial statements, except as noted below:

IFRS 16 Leases

The Group has consistently applied the accounting policies which conform with IFRSs, which are effective for the accounting period beginning on 1 January 2018 and 2019, except that the Group adopted IFRS 16 Leases on 1 January 2019 and International Accounting Standards ("IAS") 17 Leases during the period ended 30 June 2018. Upon application of IFRS 16, the Group recognised a right-of-use asset and a corresponding liability in respect of all the leases as a lessee. In addition, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows, respectively by the Group.

2. REORGANISATION AND BASIS OF PREPARATION *(Continued)*

New and amendments to IFRSs in issue but no yet effective

At the date of this report, the Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts[2]
Amendments to IFRS 3	Definition of a Business[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IAS 1 and IAS 8	Definition of Material[4]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2020.

The Directors of the Company anticipate that the application of the other new and amendments to IFRSs will have no material impact on the consolidated financial statements of the Group in the future.

The Financial Information should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2018 in the 2018 Annual Report.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the fair value of amounts received and receivable from the provision of project works provided by the Group to external customers. The Group's operations are solely derived from Singapore. Information are reported to the executive directors of the Company, who are also the chief operating decision maker ("CODM") and the Directors of the operating subsidiary, for the purposes of resource allocation and performance assessment.

Revenue from major services

The Group derives all of its revenue from provision of project works over time in the following major services.

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Project works for:				
Building and infrastructure	**12,219**	19,307	**23,928**	37,982
Interior decoration	**1,168**	–	**3,646**	2,827
Term contracts	**4,372**	2,267	**11,248**	9,780
	17,759	21,574	**38,822**	50,589

Revenue are derived from the below customers:

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Government and governmental bodies	**15,075**	14,721	**34,489**	32,995
Private companies	**2,684**	6,853	**4,333**	17,594
	17,759	21,574	**38,822**	50,589

3. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Revenue from major services *(Continued)*

All of the Group's revenue are made directly with the customers. Contracts with the Group's customers are mainly fixed price contracts. The respective project works is a single performance obligation that the Group satisfies over time. The period of project works and support services vary from 1 to 3 years.

The customers of the Group include Singapore Government agencies (including statutory boards) and private companies (including housing developers, healthcare providers, institutions of learning, commercial building owners and industrial building owners) in Singapore.

At 30 June 2019, the transaction price allocated to performance obligation that are unsatisfied (or partially unsatisfied) in relation to project works are approximately S$166.4 million (31 December 2018: S$111.9 million). The directors of the Company expect that the unsatisfied performance obligation will be recognised as revenue varying from 1 to 3 years according to the contract period.

Information about major customers

Revenue from customers of the corresponding periods contributing over 10% of the total revenue of the Group are as follows:

	For the three months ended 30 June		**For the six months ended 30 June**	
	2019 S$'000 (Unaudited)	2018 S$'000 (Unaudited)	**2019 S$'000 (Unaudited)**	2018 S$'000 (Unaudited)
Customer A	**3,938**	11,877	**13,325**	23,670
Customer B	**3,511**	N/A[1]	**7,237**	N/A[1]
Customer C	**2,930**	N/A[1]	**N/A[1]**	N/A[1]
Customer D	**N/A[1]**	6,853	**N/A[1]**	16,195

Geographical information

The Group's revenue is all derived from operations in Singapore and the Group's non-current assets are all located in Singapore.

1 The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective period.

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Government grant and subsidies[(a)]	**3**	6	**17**	39
Engineering service income	**151**	120	**151**	120
Rental income	**36**	126	**66**	177
Sales of scrap metal	**3**	94	**11**	223
Sundry income	**14**	3	**16**	6
	207	349	**261**	565

(a) The government grant and subsidies received mainly comprise the Wage Credit Scheme ("WGC")[2], Temporary Employment Credit ("TEC") Scheme[3] and Special Employment Credit ("SEC")[4] in Singapore.

2 The WGC is to help companies that may face rising wage costs in the tight labour market.

3 The TEC given to help employers cope with higher wage costs arising from Central Provident Fund changes.

4 Under SEC, the government aims to encourage and facilitate Singapore-registered business to hire older Singaporean workers.

5. OTHER GAINS OR LOSSES

	For the three months ended 30 June		For the six months ended 30 June	
	2019 **S$'000** **(Unaudited)**	2018 S$'000 (Unaudited)	**2019** **S$'000** **(Unaudited)**	2018 S$'000 (Unaudited)
Allowance for credit losses on trade receivables	**–**	–	**–**	(142)
Loss on disposal of property, plant and equipment	**(33)**	(60)	**(55)**	(60)
Compensation expenses[i]	**–**	(1,165)	**–**	(2,259)
Compensation income from insurance company[ii]	**–**	1,165	**–**	2,259
	(33)	(60)	**(55)**	(202)

(i) The amount represents payments of claim arising from loss and damage to property in respect of an accidental fire incident at the work site of a project in May 2017 ("Claims").

(ii) The amount represents the income from an insurance company in relation to the Claims.

6. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2019 **S$'000** **(Unaudited)**	2018 S$'000 (Unaudited)	**2019** **S$'000** **(Unaudited)**	2018 S$'000 (Unaudited)
Interest on:				
Bank borrowings	**42**	45	**78**	83
Bills payables	**143**	89	**296**	206
Finance leases	**19**	14	**33**	31
Bank overdrafts	**12**	4	**19**	7
	216	152	**426**	327

7. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Tax expense comprises:				
Current Tax				
— Singapore corporate income tax ("CIT")	**85**	171	**98**	409
Deferred tax	**(46)**	(8)	**(46)**	6
	39	163	**52**	415

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Singapore CIT is calculated at 17% of the estimated assessable profit eligible for CIT rebate of 40%, capped at S$15,000 for YA2018, and adjusted to 20% capped at S$10,000 for YA2019. Singapore incorporated companies can also enjoy 75% tax exemption on the first S$10,000 of normal chargeable income and a further 50% tax exemption on the next S$290,000 of normal chargeable income for YA2019 and adjusted to 75% tax exemption on the first S$10,000 of normal chargeable income and a further 50% tax exemption on the next S$190,000 of normal chargeable income for YA2020.

The Group recognised deferred tax in relation to the unused tax losses, unused tax credits and accelerated tax deprecation.

8. PROFIT FOR THE PERIOD

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit for the period has been arrived at after charging/(crediting):				
Directors' emoluments				
Salaries, allowances and other benefits	**255**	222	**510**	444
Retirement benefit scheme contributions	**9**	7	**18**	16
	264	229	**528**	460
Other staff costs				
Salaries, allowances and other benefits	**1,318**	2,003	**2,733**	3,994
Retirement benefit scheme contributions	**69**	96	**132**	185
	1,387	2,099	**2,865**	4,179
Total staff costs	**1,651**	2,328	**3,393**	4,639
Audit fees paid to auditors of the Company:				
— Annual audit fees	**34**	22	**68**	45
— Audit fees in connection with the listing of the Company	**–**	25	**–**	137
Audit fees paid to member firm of the auditors of the Company:				
— Audit fees in connection with the listing of the Company	**–**	25	**–**	138

8. PROFIT FOR THE PERIOD *(Continued)*

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	S$'000	S$'000	**S$'000**	S$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Listing expenses				
Depreciation of property, plant and equipment	**296**	311	**601**	626
Loss on disposals of property, plant and equipment	**33**	60	**55**	60
Cost of materials recognised as expenses	**267**	2,872	**695**	6,632
Subcontractor costs recognised as expenses	**14,087**	13,349	**31,269**	31,747
Gross rental income from investment properties[(a)]	**–**	–	**–**	(5)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	**–**	–	**–**	3
	–	–	**–**	(2)
Allowance for credit losses on trade receivables	**–**	–	**–**	142

(a) On 18 December 2017, a potential buyer, an independent third party, entered into an agreement with the Group to purchase its investment property located at 32 Toh Guan Road East, Singapore 608578, for a cash consideration of S$925,000.

9. (LOSS) EARNINGS PER SHARE

	For the three months ended 30 June		For the six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)	**2019 (Unaudited)**	2018 (Unaudited)
(Loss) Profit attributable to the owners of the Company (S$)	**(11,000)**	100,000	**3,000**	(242,000)
Weighted average number of ordinary shares in issue	**480,000,000**	360,000,000	**480,000,000**	360,000,000
Basic and diluted earnings per share (S$ cents)	**(0.002)**	0.028	**0.001**	(0.067)

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company and the weighted average number of shares in issue. The number of shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2018 is based on 360,000,000 shares, which were issued pursuant to the Group Reorganisation, excluding non-controlling shareholder's interest, and deemed to have been issued since 1 January 2018.

Diluted earnings per share is the same as the basic earnings per share because the Group has no dilutive securities that are convertible into shares during the six months ended 30 June 2019 and 2018.

10. TRADE RECEIVABLES

	As at 30 June 2019 S$'000 (Unaudited)	As at 31 December 2018 S$'000 (Audited)
Trade receivables	**10,702**	7,005
Less: Allowance for credit losses	**(100)**	(100)
	10,602	6,905
Unbilled revenue	**6,916**	3,730
Total trade receivables	**17,518**	10,635

The Group grants credit terms to customers typically range from 0 to 35 days from invoice date.

The table below is an ageing analysis of trade receivables net of allowance for credit losses presented based on the invoice dates at the end of reporting date.

	As at 30 June 2019 S$'000 (Unaudited)	As at 31 December 2018 S$'000 (Audited)
Within 30 days	**3,340**	4,391
31 days to 60 days	**3,971**	1,365
61 days to 90 days	**288**	961
Over 90 days	**3,003**	188
	10,602	6,905

As part of the Group's credit risk management, the Group assesses the impairment for its customers based on different group of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

10. TRADE RECEIVABLES *(Continued)*

Movement in loss allowance:

	As at 30 June 2019 S$'000 (Unaudited)	As at 31 December 2018 S$'000 (Audited)
At the beginning of the year	**100**	–
Effect of adoption of IFRS 9	**–**	100
At the end of the year	**100**	100

All of the above impairment losses related to receivables arising from contracts with customers.

The movement for the year ended 31 December 2018, i.e. in lifetime ECL, has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9. During the year ended 31 December 2018, impairment loss of S$100,000 was recognised for credit-impaired trade receivables and no impairment loss was recognised for non-credit impaired trade receivables.

11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2019 S$'000 (Unaudited)	As at 31 December 2018 S$'000 (Audited)
Deposits	**449**	284
Prepayments	**306**	113
Prepayments to sub-contractors	**3,858**	2,691
Insurance claim receivables	**60**	61
GST claimable	**–**	80
Others	**4**	2
	4,677	3,231

12. TRADE AND OTHER PAYABLES

	As at 30 June 2019 S$'000 (Unaudited)	As at 31 December 2018 S$'000 (Audited)
Trade payables	**17,729**	19,843
Trade accruals	**7,827**	10,042
Retention payables	**3,597**	3,381
Claim payables	**124**	881
Goods and service tax payables	**177**	–
Other payables and accruals	**1,354**	1,806
	30,808	35,953

The average credit period of the trade payables is 60 days. The ageing analysis of the trade payables based on invoice date at the end of the reporting period are as follows:

	As at 30 June 2019 S$'000 (Unaudited)	As at 31 December 2018 S$'000 (Audited)
Within 30 days	**3,813**	4,136
31 days to 60 days	**3,736**	2,824
61 days to 90 days	**2,024**	2,373
Over 90 days	**8,156**	10,510
	17,729	19,843

13. SHARE CAPITAL

	Number of shares	Par value	Share capital
		HK$	HK$'000
Authorised share capital:			
At date of incorporation on 8 February 2018[i]	38,000,000	0.01	380
Increase on 4 October 2018[ii]	9,962,000,000	0.01	99,620
At 31 December 2018 (audited) and 30 June 2019 (unaudited)	10,000,000,000		100,000

	Number of shares	Share capital
		S$'000
Issued and fully paid:		
At date of incorporation on 8 February 2018[i]	1	–
Issue of shares pursuant to the Group Reorganisation[iii]	99	–
Issue of shares under the capitalisation issue[iv]	359,999,900	634
Issue of shares under the Share Offer[v]	120,000,000	212
At 31 December 2018 (audited) and 30 June 2019 (unaudited)	480,000,000	846

13. SHARE CAPITAL *(Continued)*

Notes:

(i) On 8 February 2018, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the date of incorporation, one nil-paid share was allotted and issued to the initial subscriber, an independent third party. On the same date, the share was transferred to Bizstar Global.

(ii) On 4 October 2018, the authorised share capital of the Company increased from HK$380,000 divided into 38,000,000 shares to HK$100,000,000 divided into 10,000,000,000 shares by the creation of an additional 9,962,000,000 shares which rank pari passu in all respects with the existing shares.

(iii) On 1 October 2018, Mr. Ho, Mr. Lim, Energy Turbo and the Company entered into a sale and purchase agreement,pursuant to which Mr. Ho and Mr. Lim transferred their entire interests in the issued share capital of Hon Industries Pte Ltd. to Energy Turbo in consideration of the Company allotting and issuing 99 shares to Bizstar Global Limited, credited as fully paid.

(iv) On 4 October 2018, approximately HK$3,599,999 standing to the credit of the share premium account of the Company was capitalised by applying such sum in paying up in full at par 359,999,900 shares for allotment and issue to the Shareholders in proportion to their then shareholdings in the Company so that the shares allotted and issued shall rank pari passu in all respects with the then existing issued shares. This transaction is a non-cash transaction.

(v) On 7 November 2018, the Company's total number of ordinary shares, which are issued and fully paid, increased to 480,000,000 shares by issuing 479,999,900 new shares comprising 359,999,900 shares arising from the capitalisation issue and 120,000,000 shares from public offer. The 120,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.50 per share for a total consideration of HK$60,000,000 (equivalent to approximately S$10,572,000) with listing expenses of approximately HK$11,391,000 (equivalent to approximately S$2,004,000) charged to share premium. On the same date, the issued shares were successfully listed on GEM of the Stock Exchange.

14. DIVIDENDS

No dividends were paid, declared and proposed by the Company during the six months ended 30 June 2019 and 2018.

15. CONNECTED PARTY TRANSACTIONS

Name of related company	Relationship	Nature of transaction	For the three months ended 30 June		For the six months ended 30 June	
			2019	2018	**2019**	2018
			S$'000	S$'000	**S$'000**	S$'000
			(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Hilandas Property & Facilities Management Pte. Ltd.	Wholly-owned by the spouse of Mr. Ho	Sub-contracting services paid	**–**	–	**–**	–
		Sub-contracting services paid	**–**	–	**–**	–
Hon Builder Pte. Ltd.	Wholly-owned by Mr. Yap Meng Keong, the brother-in-law of Mr. Ho	Sub-contracting service received	**–**	–	**–**	–
		Rental income	**–**	9	**–**	18
Wee Jo Enterprise Pte. Ltd.	Owned as to 48% by Mr. Ho Nam Joo and 52% by Ms. Ho Chong Min, the brother and niece of Mr. Ho, respectively	Sub-contracting services paid	**–**	–	**–**	37
City Garden Pte. Ltd.	Owned as to 71.19% by Mr. Lim Beng Keong, the cousin of Mr. Lim	Sub-contracting services paid	**–**	262	**–**	286

All of the above transactions with connected parties were conducted in the ordinary course of business of the Group based on the terms mutually agreed between the relevant parties.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is a comparison between the Group's business plans as set out in the Prospectus and the Group's actual business progress for the six months ended 30 June 2019:

Business plan as set out in the Prospectus	Actual business progress as at 30 June 2019
Recruitment of addition staff (senior supervisors, skilled workers and operators) in order to further strengthen our manpower	The Group had employed 9 new staff members for the six months ended 30 June 2019. The Group is still in the process of identifying quality candidates for the remaining open positions. Currently, 6 newly awarded projects of the Company are at their early stages of work, and there are prolongation in Authority approvals. The Company will assess the projects schedule and tie in accordingly the employment of these personnel.
Acquisition of additional machinery and equipment for business expansion and consolidation of market position	The Group had purchased 4 units of machines for building construction and general contractor works. Currently, 6 newly awarded projects of the Company are at their early stages of work, and there are prolongation in Authority approvals. The Company will assess the projects schedule and tie in accordingly the purchase of these equipments.
Reconfiguration of our current properties and rental of new office	The Group had renovated and reconfigured office at 20 Ang Mo Kio Industrial Park 2A and 52 Tuas View Square.
Purchase of software and provision of staff training to enhance productivity	The Group had purchased the IT products and enrolled staffs for courses regularly. These products includes new computers for staffs, upgrading of computer software, expansion of server capacity, upgrading of server software, training courses.

USE OF LISTING PROCEEDS

The shares of the Company were listed on GEM of the Stock Exchange on 7 November 2018 for which the Company issued 120,000,000 new shares. The net listing proceeds from the share offer received by the Company, after deducting related listing expenses, were approximately HK$25.5 million (approximately S$4.5 million), out of which S$0.9 million has been utilized as at 30 June 2019. These proceeds are intended to be applied in the manner as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The future plan and scheduled use of proceeds as disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied with consideration of the actual development of business and market. As at 30 June 2019, the Group does not anticipate any change to the plan as to the use of listing proceeds. The majority of the unused net proceeds have been placed with licensed bank in Singapore and Hong Kong. The Company expects to utilize the remaining net proceeds of S$3,634,000 by 31 December 2020 as stated in the Prospectus.

As at 30 June 2019, the net listing proceeds has been applied and utilized as follows:

Use of net proceeds	Total net proceeds from share offer (S$'000)	Total remaining net proceeds available as at 1 January 2019 (S$'000)	Planned use of net proceeds for the six months ended 30 June 2019 (S$'000)	Utilized for the six months ended 30 June 2019 (S$'000)	Total remaining net proceeds available as at 30 June 2019 (S$'000)
Recruitment of addition staff	2,025	2,025	600	70	1,955
Acquisition of additional machinery and equipment	1,801	1,801	636	122	1,679
Reconfiguration of our current properties and rental of new office	180	0	0	0	0
Purchase of software and provision of staff training to enhance productivity	45	45	7.5	45	0
General working capital	450	202	–	202	0
Total	4,501	4,073	1,243.5	439	3,634

PRINCIPAL RISKS AND UNCERTAINTIES

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. As at 30 June 2019, the Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarized below:

1. Customer concentration risk

As at 30 June 2019, our top five customers accounted for over 72.3% of our total revenue and any significant decrease in projects secured from any one of them or any change in their creditworthiness may affect our business, operations and financial results. The Group has not entered into any long-term agreements with our top five customers. There is no assurance that these top five customers will continue to use our services at fees acceptable to our Group. If any of our top five customers were to terminate their business relationship with us entirely, there can be no assurance that we would be engaged by other customers to replace any such loss. In addition, if any of our customers fail to settle our invoice in accordance with the agreed credit terms, our Group's working capital position may be adversely affected. Bad debt provisions or write-offs may also be required for receivables, which will have an adverse effect on our profitability. If there is a change in our customers' creditworthiness, our results of operations would be materially and adversely affected.

2. Non-recurring nature of our projects

Our contracts are awarded on a project basis and our revenue is not recurring in nature. The Group cannot guarantee that we will continue to secure new projects from our customers after the completion of the existing projects. Any failure to do so could materially and adversely affect our financial performance.

3. Difficulties in recruiting and retaining skilled staff and/or foreign workers

There is high labour demand within the building and construction industry in Singapore and it is increasingly hard to employ skilled and licensed foreign workers due to the tightened policies on the employment of foreign workers and the labour shortage in Singapore. Any changes in the policies of the foreign workers' countries of origin may also affect the supply of foreign workers and cause disruptions to our operations, resulting in a delay for the completion of our projects.

In addition, we may also face difficulties in retaining skilled staff and/or foreign workers due to unforeseen fluctuations in labour costs. We may need to take into consideration such salary trends when recruiting or retaining skilled local talents and/or foreign workers as we would want to offer more competitive remuneration packages in order to attract higher skilled labour which may result in increased operating expenses thereby affecting our financial performance.

4. Fluctuation in the building and construction industry in Singapore

Our Group is dependent on the building and construction industry in Singapore, which is subject to fluctuations. A downturn in the building and construction industry in Singapore and unforeseeable circumstances such as postponement, delay or cancellation of construction projects may lead to a delay in recovery of receivables, which may adversely affect our business and profitability.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme ("Share Option Scheme"), which was approved by written resolutions passed by the then sole shareholder of the Company on 4 October 2018 and became unconditional on 7 November 2018. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. The Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption to 3 October 2028, after which period no further options will be granted or offered.

Pursuant to a Share Option Scheme, the Company may grant options to eligible directors of the Group, eligible employees of the Group and other selected participants, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK$1 upon each grant of options offered.

The purpose of the Share Option Scheme is to advance the interests of the Company and the shareholders by enabling the Company to grant options to attract, retain and reward the eligible persons, namely any directors, employees, consultants, advisers, any provider of goods and/or service, and any customers of the Group, and to provide the eligible persons an incentive or reward for their contribution to the Group and by enabling such persons' contribution to further advance the interests of the Group.

The exercise price of the share option will be not less than the highest of:

(i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date (the "Offer Date") of grant of the particular option, which must be a business day;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the Offer Date of the option; and

(iii) the nominal value of a Share on the Offer Date.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Share Option Scheme, or any conditions stipulated by the Board of Directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of Company.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "13. Share Option Scheme" in section headed "Statutory and General Information" in Appendix V to the Prospectus.

As at 30 June 2019, there was no option outstanding, granted, cancelled, exercised or lapsed.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the aforesaid Share Option Schemes, at no time during the six months ended 30 June 2019 was the Company or any associated corporation a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2019, the interests or short positions of Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(I) Long Position in the Ordinary Shares and Underlying Shares of the Company

(i) Interests in the Company

	Interests in ordinary shares						
Name of director	Personal interests	Family interests	Corporate interests	Total interests in ordinary shares	Total interests in underlying shares	Aggregate interests	% of the Company's issued voting shares
Mr. Ho Lien Hwai Note 1	–	–	360,000,000	360,000,000	–	360,000,000	75.00%
Mr. Lim Shi Min Note 2	–	–	360,000,000	360,000,000	–	360,000,000	75.00%

Notes:

1. The entire issued share capital of Bizstar Global Limited ("Bizstar Global") is legally and beneficially owned as to 70% by Mr. Ho. Lien Hwai ("Mr. Ho"). Accordingly, Mr. Ho is deemed to be interested in 360,000,000 shares held by Bizstar Global by virtue of the SFO. Mr. Ho is an executive Director of the Company.

2. The entire issued share capital of Bizstar Global is legally and beneficially owned as to 30% by Mr. Lim Shi Min ("Mr. Lim"). Accordingly, Mr. Lim is deemed to be interested in 360,000,000 shares held by Bizstar Global by virtue of the SFO. Mr. Lim is an executive Director of the Company.

(ii) Interests in the Associated Corporation

Name of directors	Name of associated corporation	Capacity/Nature	No. of shares held	% of the issued voting shares of associate corporation
Mr. Ho	Bizstar Global	Beneficial interest in controlled corporation	7	70%
Mr. Lim	Bizstar Global	Beneficial interest in controlled corporation	3	30%

Save as disclosed above, as at 30 June 2019, none of the directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by Directors as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND/OR SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2019, the following persons/entities (not being Directors or chief executive of our Company) have an interest or a short position in the Shares or the underlying Shares which were disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO, were as follows:

Long Position in the Ordinary Shares and Underlying Shares of the Company

Name of shareholders	Capacity	Number of shares held	% of the Company's issued voting shares
Bizstar Global	Beneficial owner	360,000,000	75.00%
Ms. Yap Lay Kheng [Note 1]	Interest of spouse	360,000,000	75.00%
Ms. Kwan Yin Leng [Note 2]	Interest of spouse	360,000,000	75.00%

Notes:

1. Ms. Yap Lay Kheng is the spouse of Mr. Ho. Therefore, Ms. Yap Lay Kheng is deemed to be interested in all the shares held by Mr. Ho pursuant to the SFO.

2. Ms. Kwan Yin Leng is the spouse of Mr. Lim. Therefore, Ms. Kwan Yin Leng is deemed to be interested in all the shares held by Mr. Lim pursuant to the SFO.

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

NON-COMPETITION UNDERTAKING

Mr. Ho Lien Hwai, Mr. Lim Shi Min and Bizstar Global Limited (the "Covenantors", each a "Covenantor") have entered into the deed of non-competition dated 4 October 2018 in favour of our Company, under which each of them has irrevocably and unconditionally, jointly and severally, warranted and undertaken to our Company that they will not, and will procure any Covenantor and his/its close associates (each a "Controlled Person" and collectively, the "Controlled Persons") and any company directly or indirectly controlled by the Covenantor (which for the purpose of the Deed of Non-competition, shall not include any member of our Group) (the "Controlled Company") not to, except through any member of our Group, directly or indirectly (whether on its own account or with each other or in conjunction with or on behalf of any person or company, or as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise), carry on, engage in, invest or acquire or hold any rights or be interested or otherwise involved in (in each case whether as a shareholder, director, partner, agent or otherwise and whether for profit, reward or otherwise) any business that is similar to or in competition with or is likely to be in competition directly or indirectly with any business carried on by any member of our Group from time to time or in which any member of our Group is engaged or has invested or is otherwise involved in any territory that our Group carries on our business from time to time.

CONFLICT OF INTERESTS

Saved as disclosed above, during the six months ended 30 June 2019, none of the directors, the substantial shareholders or the controlling shareholders (as defined under the GEM Listing Rules) of the Company or any of their respective close associates (as defined under the GEM Listing Rules) has engaged in any business that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group, and is required to be disclosed pursuant to Rule 11.04 of the GEM Listing Rules.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2019, the Board considers that the Company has complied with all the provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules with the exception of Code Provision A.2.1, which requires the roles of chairman and chief executive be different individuals. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ho Lien Hwai ("Mr. Ho") currently holds both positions. Since establishment of the Group in 2002, Mr. Ho has been the key leadership figure of the Group who has been deeply involved in the formulation of business strategies and determination of the overall direction of the Group. He has also been chiefly responsible for the Group's operations as he directly supervises the Directors (other than himself) and members of our senior management. Taking into account the continuation of the implementation of our business plans, the Directors (including the independent non-executive Directors) consider Mr. Ho the best candidate for both positions and the present arrangements are beneficial to and in the interests of our Company and our shareholders as a whole.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Code of Ethics and Securities Transactions (the "Model Code") on terms no less exacting than the required standard of dealings set out in Rules 5.46 to 5.68 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2019.

The Board has also adopted the Model Code to regulate all dealings in securities of the Company by relevant employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted during the six months ended 30 June 2019.

CHANGES OF DIRECTORS' INFORMATION UNDER RULE 17.50A(1) OF THE GEM LISTING RULES

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change of information of Directors since the publication of 2018 annual report of the Company was as follows:

Mr. Lau Wang Lap has been appointed as an independent non-executive Director, chairman of the audit committee and a member of both the remuneration committee and the nomination committee of Tai Kam Holdings Limited (Stock Code: 8321) with effect from 2 May 2019.

Save for the information above, the Company is not aware of any other change in the Directors' information which are required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2019.

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Fortune Financial Capital Limited to be the compliance adviser. As notified by Fortune Financial Capital Limited, compliance adviser of the Company, neither Fortune Financial Capital Limited nor any of its close associates (as defined in the GEM Listing Rules) and none of the directors or employees of Fortune Financial Capital Limited had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 June 2019.

AUDIT COMMITTEE

The Company established an audit committee on 4 October 2018 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The terms of reference of the audit committee are available on the websites of the Company and the Stock Exchange.

The audit committee comprises three independent non-executive Directors: Mr. Lau Wang Lap (chairman), Mr. Ng Chye Kim and Mr. Chan Shun Yin. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the risk management and internal control systems of the Company.

The Group's unaudited condensed consolidated interim results for the six months ended 30 June 2019 have not been audited by the Company's auditor, but have been reviewed by the audit committee. The audit committee has also reviewed the accounting principles and practices adopted by the Group and discussed with management regarding the financial report matters.

CHANGES IN CONSTITUTIONAL DOCUMENT

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published on the websites of the Company at www.honindustries.com.sg. and the Stock Exchange its amended restated memorandum of association and the articles of association. During the six months ended 30 June 2019, there has been no changes in the constitutional documents of the Company.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

Up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the six months ended 30 June 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION

APPRECIATION

On behalf of the Board, I would like to express my sincerest gratitude to our valued customers, subcontractors, business partners, and shareholders for their persistent support, while also expressing my appreciation to the management team and employees for their valuable contribution to the development of the Group.

By Order of the Board
Hon Corporation Limited
Ho Lien Hwai
Chairman, Executive Director and Chief Executive Officer

Singapore, 14 August 2019