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CMON LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1792)

SECOND QUARTERLY UPDATE ANNOUNCEMENT ON THE RESUMPTION PROGRESS, RESULTS OF INTERNAL INVESTIGATION AND DELAY IN PUBLICATION AND DESPATCH OF OUTSTANDING FINANCIAL STATEMENTS AND REPORTS

This announcement is made by CMON Limited (the “**Company**” and, together with its subsidiaries or any one of them, the “**Group**”) pursuant to Rule 13.09(2)(a) and Rule 13.24A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

Reference is made to (i) the announcements of the Company dated 26 March 2020, 27 March 2020 and 1 April 2020 in relation to, amongst others, the delay in publication of annual results and possible delay in dispatch of annual report for the year ended 31 December 2019 and suspension of trading; (ii) the announcement of the Company dated 15 June 2020 in relation to, among others, the Company’s intention to form an Investigation Committee and commission an independent Investigation; (iii) the announcement of the Company dated 23 June 2020 in relation to the guidance received from the Stock Exchange regarding the resumption of trading of the Company’s shares on the Stock Exchange; (iv) the announcement of the Company dated 30 June 2020 being the first quarterly update announcement on resumption progress (the “**1st Quarterly Update Announcement**”); (v) the announcement of the Company dated 7 July 2020 in relation to the formation of the Investigation Committee and the appointment of Mazars Singapore as independent investigator (“**Mazars**”); and (vi) the announcements of the Company dated 2 July 2020, 31 July 2020, 4 August 2020, 7 August 2020 and 27 August 2020 in relation to, *inter alia*, the notice of the annual general meeting of the Company

held on 31 July 2020 and the results thereof, the proposed appointment of Zhonghui Anda CPA Limited (“**Zhonghui**”) as the auditor of the Company and the notice of the extraordinary general meeting of the Company for the appointment of Zhonghui as the auditor of the Company held on 27 August 2020 and the results thereof.

Capitalised terms used herein shall have the same meanings as those defined in the 1st Quarterly Update Announcement.

This announcement sets out (i) the business operations of the Group, (ii) a summary of the Company’s progress in implementing the resumption plan as set out in the 1st Quarterly Update Announcement, (iii) the findings and internal control recommendations of the Investigation conducted by Mazars as set out in the draft independent investigation report submitted by Mazars to the Investigation Committee and (iv) the proposed timetable for the fulfillment of the resumption conditions as at the date hereof.

BUSINESS OPERATIONS

The Group is a hobby games publisher specialising in developing and publishing mainly tabletop games (including board games and miniature war games). The Group has also developed and launched mobile games since 2015. In 2018, the Group launched its first computer game.

The Group publishes both self-owned games and licensed games, as well as distributes third party games. The Group sells its games mainly through Kickstarter and to wholesalers. The Group also sells directly to end users through its own online store and at game conventions.

As at the date of this announcement, the Group offered a total of 93 games, comprising 87 board games, three miniature war games, two mobile games and one computer game.

As a result of the coronavirus (COVID-19) pandemic (the “**Pandemic**”), the sales of our tabletop games has recorded a year-on-year decline in the first quarter of 2020, but is recovering in the second and third quarters of 2020. The Board will continue to assess the impact of the Pandemic on the operations and performance of the Group, and will take appropriate measures as necessary and make further announcements as and when appropriate.

UPDATE ON RESUMPTION PROGRESS

In accordance with the Resumption Guidance, investigations have been made into the Audit Issues. Details of the progress of such investigations and the progress of the publication of outstanding financial results are set out below.

(i) The Distribution Agreement

As set out in the 1st Quarterly Update Announcement, the Company has retained legal counsel in the United States to provide legal advice in connection with the Distribution Agreement. The Audit Issue in connection with the Distribution Agreement arose from the fact that there was confusion between the Group and the distributor under the Distribution Agreement (the “**Distributor**”) concerning the ownership of certain products supplied by the Group to the Distributor and the treatment of the corresponding advance payment of US\$1.5 million paid by the Distributor to the Group.

On 30 June 2020, the Group and the Distributor executed a notarized letter agreement (the “**Confirmation Letter**”) regarding the Distribution Agreement confirming that the relevant products were supplied to the Distributor on a sale basis and that the corresponding advance payment is non-refundable. Furthermore, at the request of the Investigation Committee, the Company has also obtained a letter of legal advice from its legal counsel in the United States (the “**Legal Advice**”) advising that the Confirmation Letter confirms that the Distribution Agreement was and will continue to be performed accordingly, and is binding on the parties.

Furthermore, and as set out in the announcement of the Company dated 7 July 2020, the Company has formed an Investigation Committee and appointed Mazars as the independent professional party to conduct the Investigation and produce a report of findings (with internal control recommendations) to the Investigation Committee (the “**Investigation Report**”).

The draft Investigation Report, containing, among others, the relevant findings and internal control recommendations, has been submitted to the Investigation Committee on 30 September 2020. The draft Investigation Report has been reviewed by the Investigation Committee, which agrees with its findings and internal control recommendations. The internal control recommendations made by Mazars will be proposed for adoption by the Board. Details of the draft Investigation Report are set out further below in this announcement.

The Confirmation Letter, Legal Advice and draft Investigation Report have been produced to Zhonghui to assist them in the conduct of the audit in respect of the 2019 Annual Results.

(ii) The Prepayment Balances

As set out in the announcements of the Company dated 2 July 2020, 31 July 2020, 6 August 2020 and 27 August 2020, Zhonghui has been appointed as the auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company. Accordingly, they are in the process of conducting the audit procedures in connection with the 2019 Annual Results.

As set out in the announcement of the Company dated 26 March 2020, one of the Audit Issues was in relation to the rationale and substance of the significant increase in the prepayment balances of the Group as at 31 December 2019. The Company submits that the increase in prepayment balances is due to the ongoing design, development and production of the Group's games, which requires advance payments to be made to certain third party suppliers who are involved in such design, development and production processes. During the financial year ended 31 December 2019, and before the outbreak of the Pandemic, the Company had anticipated an increase in its sales in financial year 2020 and had accordingly stepped up its development and production activities; as a result, the prepayment balances paid to suppliers increased as well. In particular, the launch of Kickstarter campaigns in late 2019 and planned launch of Kickstarter campaigns in early 2020 and the accompanying design, development and production activities required prepayments to be made to suppliers to the Group throughout the game development and production process in accordance with the development and launch timelines for such respective Kickstarter campaigns.

Zhonghui is in the process of conducting its audit procedures in respect of the 2019 Annual Results, which will cover the prepayment balances of the Group as at 31 December 2019.

(iii) Audit progress in respect of the 2019 Annual Results

As of the date of this announcement, the Company has not published the 2019 Annual Results as at the date hereof and the audit procedures remain ongoing.

In respect of the 2019 Annual Results, Zhonghui is in the process of conducting their audit field work. The Company continues and will continue to communicate and cooperate with Zhonghui to complete their audit procedures in connection with the 2019 Annual Results. The Company has been providing and will continue to provide access and documents requested by Zhonghui for their audit procedures, including in respect of going concern.

As at the date of this announcement, the outstanding financial statements and reports of the Company which are yet to be announced and published/despached are the 2019 Annual Results, the annual report for the financial year ended 31 December 2019 (the "**2019 Annual Report**") and the interim results and interim report for the six months ended 30 June 2020 (respectively, the "**2020 Interim**

Results” and the “**2020 Interim Report**”). Subject to the publication of the 2019 Annual Results, the Company will continue to communicate and cooperate with Zhonghui to publish and despatch the other outstanding financial statements and reports.

The Company notes that the Pandemic and the associated travel and work restrictions imposed continues to affect the audit procedures in connection with the 2019 Annual Results.

DETAILS OF THE DRAFT INVESTIGATION REPORT

As set out above, Mazars has submitted the draft Investigation Report to the Investigation Committee. Mazars’ key findings and internal control recommendations are set out as follows.

1. The Group and the Distributor have confirmed, by way of the Confirmation Letter, that the commercial understanding between both parties is that the relevant products were supplied to the Distributor on a sale basis, and the corresponding advance payment of US\$1.5 million is non-refundable. Based on the Investigation, which included examining relevant accounting records and inventory records, Mazars also concluded that the parties had acted in accordance with the Confirmation Letter at all material times.
2. Mazars did not uncover evidence that suggested misconduct by the Group’s management or employees with respect to the matters within the scope of the Investigation. Mr. Ng Chern Ann (“**Mr. Ng**”), an executive Director and the chairman of the Board and the chief executive office of the Company at the material time, personally negotiated and executed the Distribution Agreement with the Distributor. Pursuant to the Company’s internal control procedures, “contracts that may give rise to commitments are approved by the chief executive officer of the Company”. As such, in compliance with the Group’s written internal procedures, Mr. Ng was authorized to approve the execution of the Distribution Agreement himself.

Notwithstanding the above, Mazars have recommended that the Group enhance its internal controls. Their key recommendations include:

1. **Material contracts:** For material contracts that result in commitments that are in excess of US\$1 million: (i) the Group’s management should submit a proposal or board paper to the Board for their consideration before the start of negotiations; (ii) the Board should set the parameters of the negotiations that the Group’s management are required to adhere to; (iii) the Board should be kept abreast of the status and progress of negotiations in a timely and regular manner; and (iv) the agreement may only be executed after the Board has considered and approved it.

2. **Appointment of legal counsel:** The Group should consider enhancing its internal controls to require management to consider appointing legal counsel to assist the Group in preparing legal documentation. In particular, if the proposed contract is governed by a jurisdiction outside of Singapore, a legal counsel who is experienced and licensed to practice in that jurisdiction should be appointed to advise the Group and to protect the Group's interests. Nonetheless, the Group should consider appointing legal counsel if the proposed transaction is complex and/or involves more than two parties. This enhancement to the Group's internal controls should require management of the Group to explicitly document and report to the Board the reason(s) if the decision is made to not appoint legal counsel.
3. **Safe-keeping of contracts:** The Group's existing procedures require original contracts be safe-kept by the Group's general counsel. In light of the fact that the Group does not have a full-time general counsel, it is recommended that original contracts be safe-kept by the chief financial officer of the Company at the Group's offices.
4. **Maintaining accounting schedules and sub-ledgers:** Stronger internal accounting procedures and documentation are recommended. This includes increasing the level of detail maintained in the accounting schedules and sub-ledgers by the Group.
5. **Complex accounting matters:** The chief financial officer of the Company should inform the audit committee of the Board and consult with the Company's auditors in a timely manner should he encounter a technically complex or challenging accounting matter which may have a material financial impact on the Group. Where necessary, the audit committee of the Board may advise the chief financial officer of the Company to obtain an independent accounting opinion to assist with the resolution of such accounting matters.

The draft Investigation Report has been reviewed by the Investigation Committee, which agree with its findings and internal control recommendations. The internal control recommendations made by Mazars will be proposed for adoption by the Board. It is expected that the Investigation Report will be issued soonest in substantially the same form.

UPDATE ON THE TIMELINE FOR THE FULFILLMENT OF THE RESUMPTION CONDITIONS

The following table sets forth the events and expected timetable for resumption of trading of the shares in the Company:

Action	Timetable
Appointment of Mazars, an independent professional party, to conduct the Investigation	6 July 2020
Formation of the Investigation Committee	7 July 2020
Announcement by the Company of the findings of the Investigation as set out in the draft Investigation Report	30 September 2020
Issuance by Mazars of the Investigation Report to the Investigation Committee	By mid-October 2020
Publication of 2019 Annual Results	By the end of November 2020
Publication of the 2019 Annual Report	By the end of November 2020
Publication of the 2020 Interim Results	Subject to further assessment by the Board
Publication of the 2020 Interim Report	Subject to further assessment by the Board
Resumption of trading in the shares of the Company	Subject to further assessment by the Board

The Company will make further announcement(s) relating to any material changes to the above. The Company will also inform the market of all material information for the Shareholders and potential investors of the Company to appraise the Company's position as appropriate.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2020 and will continue to be suspended until the Company fulfills the Resumption Guidance. The Company will keep the public informed of the latest developments by making further announcement(s) as and when appropriate.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

By Order of the Board

CMON Limited

Ng Chern Ann

Chairman, Joint Chief Executive Officer and Executive Director

Singapore, 30 September 2020

As at the date of this announcement, the executive Directors are Mr. Ng Chern Ann, Mr. David Doust and Mr. Koh Zheng Kai; the non-executive Director is Mr. Frederick Chua Oon Kian; and the independent non-executive Directors are Mr. Chong Pheng, Mr. Wong Yu Shan Eugene and Mr. Choy Man.