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CMON LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1792)

SATISFACTION OF ALL RESUMPTION CONDITIONS AND RESUMPTION OF TRADING

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, 30 September 2020 (the “**Second Quarterly Update**”) and 30 December 2020 (the “**Third Quarterly Update**”), being the quarterly update announcements on resumption progress; (v) the announcement of the Company dated 7 July 2020 in relation to the formation of the Investigation Committee and the appointment of Mazars as independent investigator; (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, amongst others, the annual general meeting of the Company held on 31 July 2020 and the results thereof, the proposed appointment of 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; (vii) the announcement of the Company dated 23 October 2020 in relation to the finalization and issuance of the independent Investigation Report to the Investigation Committee; (viii) the announcements of the Company dated 27 November 2020 containing the audited final results for the year ended 31 December 2019 (the “**2019 Annual Results**”) and the unaudited interim results for the six months ended 30 June 2020 (the “**2020 Interim Results**”); (ix) the annual report for the year ended 31 December 2019 (the “**2019 Annual Report**”) and the interim report for the six months ended 30 June 2020 (the “**2020 Interim Report**”), each published on 30 November 2020; and (x) the announcements of the Company dated 30 November 2020 and 23 December 2020 in relation to the extraordinary general meeting for the adoption of the audited consolidated financial statements of the Group for the year ended 31 December 2019 (“**FY2019**”) and the results thereof.

Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Third Quarterly Update.

BACKGROUND OF TRADING SUSPENSION

As disclosed in the Company’s announcements dated 26 March 2020, 27 March 2020 and 1 April 2020, there was a delay in the publication of the 2019 Annual Results as additional time was required for the Company to provide the required information and documents to its former auditors in relation to the Audit Issues. The Audit Issues were in relation to: (i) the Distribution Agreement (as defined below); (ii) the rationale and substance of the significant increase in the prepayment balances as at 31 December 2019; and (iii) other documents and information as required by the former auditors for their audit procedures on certain audit issues including going concern. Owing to such delay, the Company requested that trading in the shares of the Company (the “**Shares**”) on the Stock Exchange be suspended with effect from 9:00 a.m. on 1 April 2020, pending publication of the 2019 Annual Results.

As disclosed in the Company’s announcement dated 23 June 2020, the Company was notified by the Stock Exchange of the following Resumption Guidance for the Company:

- (i) conduct an appropriate investigation into the issues raised by the Company’s former auditors, announce the findings and take appropriate remedial actions;
- (ii) publish all outstanding financial results and address any audit modifications; and
- (iii) announce all material information for the Company’s shareholders and other investors to appraise the Company’s position.

SATISFACTION OF ALL RESUMPTION GUIDANCE

As at the date of this announcement, the Company has fulfilled all of the Resumption Guidance, details of which are set out below.

Resumption Condition (i) — conduct an appropriate investigation into the issues raised by the Company’s auditors, announce the findings and take appropriate remedial actions

A. Audit Issue in relation to the Distribution Agreement

Background

As disclosed in the Second Quarterly Update, the Audit Issue in connection with the Distribution Agreement (as defined below) arose from the fact that there was confusion 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.

The confusion arose because, during the audit of the Group’s FY2019 financial statements, the former auditors obtained an executed copy of the distribution agreement from the Distributor, the contents of which were inconsistent with the copy of the distribution agreement subsequently provided by the Company (the “**Distribution Agreement**”) and which did not reflect the commercial intention or actual performance of the parties. The differing copies of the agreement had resulted from miscommunications of the parties. However, as the negotiation of the Distribution Agreement was primarily conducted orally alongside the handling of day-to-day business by Mr. Ng Chern Ann, the chairman of the Company, the details of the miscommunications cannot be reconstructed with sufficient accuracy due to the lack of adequate contemporaneous written records.

The inconsistency was not in relation to the actual framework distribution arrangement between the Group and the Distributor, but was solely in relation to an ancillary one-off sale and transfer of certain products from the Group to the Distributor. Although at all times the commercial intention and actual performance of the parties was for such products to be sold and transferred outright to the Distributor in consideration of, *inter alia*, a corresponding non-refundable advance payment of US\$1.5 million, it was unclear, as a result of the inconsistent copies of the agreement, whether the products were supplied to the Distributor on a sale or consignment basis and if the corresponding advance payment of US\$1.5 million was refundable or non-refundable.

Despite the inconsistent terms between the two copies of the agreement, at all material times the commercial intention, understanding and actual performance of the parties were pursuant to the terms of the Distribution Agreement, and accordingly the products were supplied to the Distributor on a sale basis and the

corresponding advance payment of US\$1.5 million was non-refundable. In order for the audit to proceed, the governing commercial terms of the distribution arrangement between the Group and the Distributor had to be definitively clarified.

Accordingly, the Company promptly took remedial action to address and resolve such Audit Issue in order to facilitate the completion of the audit of the Group's FY2019 financial statements.

Resolution of the Audit Issue in relation to the Distribution Agreement and Other Remedial Actions

The following is a summary of the remedial actions taken to address the Audit Issue in relation to the Distribution Agreement:

1. The Confirmation Letter and the Legal Advice: The former auditors had recommended to the Company to enter into a supplemental agreement and/or obtain a legal opinion to clarify the governing terms of the Distribution Agreement. The Audit Committee agreed with these recommendations and directed the Company to adopt them. As such, in May 2020, the Company retained legal counsel in the United States to provide assistance and advice in connection with the Distribution Agreement.

As disclosed in the Second Quarterly Update, on 30 June 2020, the Group (with the advice of its legal counsel in the United States) and the Distributor executed the Confirmation Letter regarding the Distribution Agreement, which confirmed that the relevant products were supplied to the Distributor on a sale basis and that the corresponding advance payment is non-refundable.

As disclosed in the Second Quarterly Update, the Company also obtained the Legal Advice, advising that the Confirmation Letter (i) confirms that the parties did and will continue to perform the Distribution Agreement in accordance with its terms (i.e., that the relevant products were sold and transferred outright to the Distributor and that the advance of US\$1.5 million is non-refundable), and (ii) is binding on the parties.

2. Investigation Committee and appointment of Mazars as independent investigator: As disclosed in the Company's announcement dated 7 July 2020, the Company formed the Investigation Committee and appointed Mazars as the independent investigator to conduct the Investigation and produce a report of findings (with internal control recommendations) to the Investigation Committee. Under the instruction of the Investigation Committee, Mazars conducted its Investigation and issued the Investigation Report.

3. Key Findings of the Investigation Report: The key findings of the Investigation Report issued by Mazars are as follows:
- (i) in regard to the Audit Issue in relation to the Distribution Agreement, by way of the Confirmation Letter, the Group and the Distributor clarified that the commercial understanding between both parties is aligned with the terms of the Distribution Agreement (i.e., that the relevant products were sold and transferred outright to the Distributor and that the advance of US\$1.5 million is non-refundable). Based on its investigative work, Mazars determined that the advance payment of US\$1.5 million was not refunded to the Distributor and was fully utilized by the Group in their ordinary course of business and none of the products transferred to the Distributor were returned to the Group;
 - (ii) Mazars did not uncover evidence that suggested misconduct by the Group's management or employees in relation to such Audit Issue; and
 - (iii) Notwithstanding the foregoing conclusion and their finding that the Distribution Agreement was negotiated and executed in accordance with the then-existing internal control policies of the Group, Mazars recommended that the Group enhance its internal controls.

As disclosed in the Second Quarterly Update and the Company's announcement dated 23 October 2020, the Investigation Committee agreed with the findings of the Investigation as contained in Investigation Report issued by Mazars.

4. Adoption of Mazars' internal control recommendations: The Investigation Report contained recommendations to enhance the internal control policies of the Group, with which the Investigation Committee agreed and proposed to the Board for adoption. Accordingly, the Board resolved to adopt all of the internal control recommendations proposed by Mazars and the Group revised its internal control policies. Details of the internal control recommendations and the corresponding implementation actions taken by the Group is set out in the Company's announcement dated 23 October 2020. Such recommendations, among others, ensure that the negotiation, execution and record-keeping of material contracts will be adequately and continually supervised, monitored and recorded in a timely manner.

The Investigation Committee is satisfied that the Investigation is thorough, comprehensive and in-depth. The Investigation Committee considers the scope of the Investigation by Mazars to be adequate in addressing the Audit Issue in connection with the Distribution Agreement, and the findings and remarks of Mazars in the Investigation Report to be fair and reasonable. The Investigation Committee considers that such Audit Issue was primarily attributable to a relatively weak internal control system of the Group, and believes that a stringent internal control system is a key to success for the Group. The Investigation Committee is

determined to strengthen and continue to monitor the internal control systems of the Group in order to regain the confidence of the Company's shareholders and investors. Accordingly, the Investigation Committee finds the internal control recommendations by Mazars to be sensible and helpful in mitigating the risk of similar issues arising in the future.

Zhonghui, the current auditor of the Company, has also obtained and assessed the Investigation Report and information concerning the Distribution Agreement, including the Confirmation Letter and the Legal Advice. Zhonghui considers that the Investigation undertaken by Mazars together with the Investigation Committee and the information and documents provided by the Company for the purposes of the audit adequately addresses all the matters raised by the former auditors in respect of the Distribution Agreement and adequately takes up their suggestions for addressing such Audit Issue.

Accounting Adjustment in relation to the sale of the Group's products under the Distribution Agreement

The Distribution Agreement also led to a related Audit Issue in connection with the accounting treatment of the sale of the relevant products to the Distributor. The consideration payable by the Distributor for the relevant products consisted of both (i) the advance payment of the fixed sum of US\$1.5 million and (ii) a variable consideration element whose value depended on the Distributor's actual performance in distributing and selling the products which it had purchased from the Group. There were technical discussions arising from the accounting treatment of the variable consideration element of the transaction, in particular regarding the total amount that should be recognized as revenue and cost of sales in FY2019. The focus of such Audit Issue was therefore determining the proper accounting adjustment to be made for the variable consideration element of the transaction.

As part of Zhonghui's audit of the Group's FY2019 financial statements, Zhonghui, the CFO and Audit Committee discussed, agreed and finalized the measurement of the variable consideration element of the revenue to be recognized from the transaction during FY2019. Accordingly, the accounting treatment of the sale of the relevant products to the Distributor has now been resolved, and the 2019 Annual Results have been published (please see below for details).

Nevertheless, in order to avoid encountering a similar audit issue in the future, as disclosed in the Second Quarterly Update and the Company's announcement dated 23 October 2020, Mazars' Investigation Report recommended, *inter alia*, an internal control policy requiring the CFO to inform the Audit Committee and consult with the Group's auditors in a timely manner should he encounter a technically complex or technically challenging accounting matter which may have a material financial impact on the Group. Where necessary, the Audit Committee may advise the CFO to obtain an independent accounting opinion to assist with the resolution of such accounting matters. The Board has adopted such a policy and believes that, going

forward, it would ensure that complex accounting matters would be resolved in a prompt and timely manner in consultation with the Audit Committee and the Company's auditors.

B. Audit Issues in relation to prepayment balances and outstanding documentation and information

Background

The remaining Audit Issues were in relation to (i) the rationale and substance of the significant increase in the prepayment balances as at 31 December 2019 and (ii) the provision of certain outstanding documents and information as required by the former auditors for their audit procedures on certain audit issues including going concern.

Resolution of such Audit Issues

1. In relation to the prepayment balances

As disclosed in the Second Quarterly Update, the rationale behind the significant increase of prepayments of the Group as at 31 December 2019 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.

In the course and as part of Zhonghui's audit of the Group's FY2019 financial statements, Zhonghui considered and concluded that the Group's balance sheet, which included the prepayment balances of the Group as at 31 December 2019, was fairly stated. Zhonghui communicated to the chairman of the Investigation Committee that they were not aware of any issue or irregularity in the list of prepayments as at 31 December 2019 and the majority of prepayments have been utilized based on their latest accounting records.

The chairman of Investigation Committee was informed by Zhonghui that based on their audit of the Group's FY2019 financial statements, they were satisfied with the results of their audit and no audit modification relating to the prepayments for FY2019 would be issued. The Investigation Committee also reviewed the list of prepayments as at 31 December 2019 and 30 June 2020 and the movement of such prepayments during the six months ended 30 June 2020, and the Investigation Committee concluded that the prepayments were paid to genuine suppliers and the majority of the prepayments as at 31 December 2019 were utilized in the six months ended 30 June 2020. In the period up to 30 November 2020, approximately 81% of such prepayments had been utilized.

2. In relation to the provision of certain outstanding documents and information

During their audit of the Group's FY2019 financial statements, the former auditors identified certain outstanding documents and information which they required for their audit procedures. In order to conclude the audit of the Group's FY2019 financial statements, Zhonghui satisfied itself that the documents and information provided by the Company adequately addressed such outstanding matters.

Accordingly, the Company and the Investigation Committee did not consider that the Audit Issues in relation to (i) the increase in prepayments as at 31 December 2019 and (ii) the certain outstanding documents and information identified by the former auditors require an independent investigation, as they would be addressed as part of Zhonghui's audit of the Group's FY2019 financial statements.

As such, in the Second Quarterly Update, the Company stated that it intended to allow Zhonghui to address such Audit Issues as part of their audit procedures of the Group's FY2019 financial statements. Zhonghui was satisfied with the results of their audit procedures and has not requested an independent investigation into and has not issued a modified opinion on the basis of such matters. The Group has published the audited 2019 Annual Results (please see below for details) as such Audit Issues have been resolved with Zhonghui.

C. General

In light of the foregoing, the Investigation Committee considers that all of the Audit Issues have been duly dealt with and that all meaningful actions have been taken, given that (i) the transactions between the Group and the Distributor have always been and will continue to be conducted in the manner as set out in the Distribution Agreement (in accordance with the commercial intentions of the parties and as confirmed by the Confirmation Letter); and (ii) the Audit Issues in relation to (a) the prepayment balances of the Group as at 31 December 2019 and (b) outstanding information and documents required by the former auditors have been addressed to the satisfaction of the Investigation Committee and Zhonghui.

As set out in the Third Quarterly Update, the Investigation Committee and the Company therefore consider that the Audit Issues have been duly and satisfactorily addressed, appropriate remedial actions have been taken and that, where appropriate, the Company has published the findings of any investigation into the Audit Issues.

Resumption Condition (ii) — publish all outstanding financial results and address any audit modifications

The Company has published all outstanding financial results, namely the 2019 Annual Results, 2019 Annual Report, 2020 Interim Results and 2020 Interim Report on the dates and accessible at the weblinks as follows:

Date of publication	Financial results/reports	Weblinks
27 November 2020	2019 Annual Results	https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1127/2020112701207.pdf
27 November 2020	2020 Interim Results	https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1127/2020112701231.pdf
30 November 2020	2019 Annual Report	https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1130/2020113001547.pdf
30 November 2020	2020 Interim Report	https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1130/2020113001715.pdf

In addition, it is noted that the Company's auditors have opined in the auditor's report for FY2019 that the consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. It is further noted that the said auditor's report is not qualified or modified. It follows from the opinion of the Company's auditors that the Audit Issues have been fully addressed.

An extraordinary general meeting of the Company was duly convened on 23 December 2020 in which the resolution to adopt the audited consolidated financial statements of the Company for FY2019 was passed by ordinary resolution of the shareholders.

Resumption Condition (iii) — announce all material information for the Company's shareholders and other investors to appraise the Company's position

Since the suspension of trading of the Shares, the Company has informed its shareholders and investors of all material information to appraise the Company's position by way of announcements on the website of the Stock Exchange.

RESUMPTION 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. As all the resumption conditions pursuant to the Resumption Guidance have been satisfied, the Company has made an application to the Stock Exchange for the resumption of trading in the Company's shares on the Stock Exchange with effect from 9:00 a.m. on 26 February 2021.

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, 26 February 2021

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.