



KHONG GUAN LIMITED
(Company Reg. No. 196000096G)

Half Year Financial Statement And Dividend Announcement for the Period Ended 31/01/2020

PART I - INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Income Statement

	Note	GROUP 6 months ended		Increase/(Decrease) %
		31/01/2020 \$'000	31/01/2019 \$'000	
Revenue		29,078	31,831	(8.65)
Dividend income		64	77	(16.88)
Other net changes in fair value on financial assets at fair value through profit or loss	1	(79)	(224)	(64.73)
Other income	2	340	121	180.99
Changes in inventories		(486)	(1,219)	(60.13)
Purchases of inventories		(25,743)	(27,866)	(7.62)
Employee benefits expense		(2,310)	(2,169)	6.50
Depreciation and amortisation expenses	3	(373)	(277)	34.66
Share of results of associate, net of tax	4	304	470	(35.32)
Other expenses		(1,220)	(1,195)	2.09
Loss before tax		(425)	(451)	(5.76)
Income tax expense	5	(140)	(110)	27.27
Loss for the financial period		(565)	(561)	0.71
Loss for the financial period attributable to :				
Equity holders of the Company		(636)	(634)	0.32
Non-controlling interests		71	73	(2.74)
		(565)	(561)	0.71

Statement of Comprehensive Income

	GROUP 6 months ended	
	31/01/2020 \$'000	31/01/2019 \$'000
Loss for the financial period	(565)	(561)
Other comprehensive income :		
Items that may be reclassified subsequently to profit or loss:		
Share of associate's capital reserve on long-term investment	0	(8)
Translation differences relating to financial statements of foreign operations	131	(757)
Other comprehensive income, net of tax	131	(765)
Total comprehensive income for the financial period	(434)	(1,326)
Total comprehensive income attributable to :		
Equity holders of the Company	(514)	(1,348)
Non-controlling interests	80	22
	(434)	(1,326)

1(a)(ii) Loss for the financial period includes the following :

	GROUP	
	6 months ended	
	31/01/2020	31/01/2019
	\$'000	\$'000
(a) Investment income	64	77
(b) Interest income	37	64
(c) Interest on borrowings	0	0
(d) Depreciation and amortisation	(373)	(277)
(e) Allowance for doubtful receivables made	(33)	0
(f) Write off for stock obsolescence	0	0
(g) Impairment loss on unquoted investments	0	0
(h) Foreign exchange gain/(loss)	6	(92)
(i) Overprovision of tax in respect of prior years	5	0
(j) Profit on disposal of property, plant and equipment	0	0

Notes :

- 1 Other net changes in fair value on financial assets at fair value through profit or loss

	GROUP	
	6 months ended	
	31/01/2020	31/01/2019
	\$'000	\$'000
Profit on sale of quoted short-term investments	36	46
Fair value loss on short-term investments, unrealised	(115)	(270)
	<u>(79)</u>	<u>(224)</u>

- 2 Other income

Foreign exchange gain	6	0
Rental income	92	45
Unclaimed dividends	161	0
Insurance claim	30	0
Interest income and others	51	76
	<u>340</u>	<u>121</u>

- 3 Depreciation and amortisation expenses

Property, plant and equipment	248	252
Prepaid leases	25	25
Investment property	100	0
	<u>373</u>	<u>277</u>

- 4 The share of results of associate is explained in the review of the Group performance under item 8.

- 5 Income tax expense

	GROUP	
	6 months ended	
	31/01/2020	31/01/2019
	\$'000	\$'000
Current taxation		
- Malaysian tax	158	173
- tax deducted at source	1	1
Deferred taxation	(14)	(64)
Overprovision for taxation in prior years	(5)	0
	<u>140</u>	<u>110</u>

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

		GROUP		COMPANY	
		31/01/2020	31/07/2019	31/01/2020	31/07/2019
Note		\$'000	\$'000	\$'000	\$'000
ASSETS AND LIABILITIES					
Non-Current Assets					
Property, plant and equipment	1	6,001	5,122	898	966
Prepaid lease		1,432	1,453	0	0
Investment property		13,702	13,897	13,702	13,897
Investments in subsidiaries		0	0	18,287	18,287
Investment in associate	2	20,074	20,059	0	0
Financial assets, at fair value through other comprehensive income	3	279	279	0	0
		41,488	40,810	32,887	33,150
Current Assets					
Inventories		6,347	6,816	7	0
Short-term investments	4	3,879	4,657	0	0
Trade receivables		11,030	9,831	395	295
Other receivables		559	523	101	87
Tax recoverable		308	235	0	0
Amounts owing by subsidiaries		0	0	1,845	2,813
Fixed deposits		2,298	2,275	2,248	2,206
Cash and bank balances		4,435	6,877	1,760	2,933
		28,856	31,214	6,356	8,334
Less					
Current Liabilities					
Trade payables		5,251	4,313	382	188
Other payables	5	844	2,451	412	1,452
		6,095	6,764	794	1,640
Net Current Assets		22,761	24,450	5,562	6,694
Less					
Non-Current Liabilities					
Provision for retirement benefits		253	280	253	280
Deferred tax liabilities		84	98	0	0
		337	378	253	280
Net Assets		63,912	64,882	38,196	39,564
EQUITY					
Share capital		33,279	33,279	33,279	33,279
Capital reserve		357	357	0	0
Foreign currency translation reserve		1,711	1,589	0	0
Retained profits		25,921	27,073	4,917	6,285
Attributable to equity holders of the Company		61,268	62,298	38,196	39,564
Non-controlling interests		2,644	2,584	0	0
Total Equity		63,912	64,882	38,196	39,564

Notes :

- 1 A Malaysian subsidiary (TGF) made progress payments for the construction of warehouse and office block during the period.
- 2 Investment in associate

	GROUP	
	31/01/2020 \$'000	31/07/2019 \$'000
Unquoted equity investment, at cost	12,035	12,035
Share of post-acquisition reserve	13,238	13,287
Share of capital reserve	128	127
Foreign currency translation reserve	(5,327)	(5,390)
	20,074	20,059

3 Financial assets, at fair value through other comprehensive income

	GROUP	
	31/01/2020 \$'000	31/07/2019 \$'000
Balance at beginning of the financial period	279	0
Reclassification at 1 August, at cost	0	24
Effect of adoption of SFRS(I) 9	0	271
Fair value loss	0	(16)
Balance at end of the financial period	<u>279</u>	<u>279</u>

4 Short-term investments

Quoted investments, at fair value

Balance at beginning of the financial period	4,657	5,424
Sales	(766)	(2,463)
Purchases	103	1,891
Fair value loss, unrealised	(115)	(195)
Balance at end of the financial period	<u>3,879</u>	<u>4,657</u>

- 5 The lower other payables was due to repayment of retention money and outstanding amount owed to the developed industrial building's contractor.

1(b)(ii) Aggregate amount of group's borrowings and debts securities.

	As at 31/01/2020		As at 31/07/2019	
	Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
Amount repayable in one year or less, or on demand	0	0	0	0
Amount repayable after one year	0	0	0	0
Details of any collateral				

The bank overdrafts and other credit facilities are secured by way of fixed charges on a subsidiary company's landed properties and are also guaranteed by the Company.

1(b)(iii) Additional information

	Short-term Quoted Securities \$'000	*Percentage of NTA
Cost as at 1 August 2019	5,623	9.18
Purchases	103	0.17
Cost of investments sold	<u>(1,086)</u>	<u>(1.77)</u>
Cost as at 31 January 2020	4,640	7.57
Fair value movements		
Balance as at 1 August 2019	(966)	(1.58)
Fair value loss, realised	320	0.52
Fair value loss, unrealised	<u>(115)</u>	<u>(0.19)</u>
Balance as at 31 January 2020	<u>(761)</u>	<u>(1.24)</u>
Fair value as at 31 January 2020	<u>3,879</u>	6.33
Fair value as at 31 July 2019	<u>4,657</u>	

* NTA (Net Tangible Assets Value) is based on the unaudited consolidated statement of financial position as at 31 January 2020.

1(c) **A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	GROUP	
	6 months ended	
	31/01/2020	31/01/2019
	\$'000	\$'000
Cash flows from operating activities :		
Loss before tax	(425)	(451)
Adjustments for non-cash and other items :		
Allowance for doubtful trade receivables	33	0
Depreciation and amortisation expenses	373	277
Fair value loss on short-term investments	115	270
Interest income	(37)	(64)
Provision for retirement benefits	7	14
Share of results of associate, net of tax	(304)	(470)
	187	27
Operating loss before working capital changes	(238)	(424)
Decrease in short-term investments	662	55
Decrease in inventories	486	1,219
Increase in trade and other receivables	(1,293)	(884)
Decrease in trade and other payables	(593)	(826)
	(738)	(436)
Cash used in operations	(976)	(860)
Income tax paid	(154)	(175)
Interest received	37	64
Payments of retirement benefits	(34)	0
	(151)	(111)
Net cash used in operating activities	(1,127)	(971)
Cash flows from investing activities :		
Purchase of property, plant and equipment	(1,103)	(1,267)
Addition to investment property	0	(1,030)
Proceeds from disposal of property, plant and equipment	0	57
Dividend received from associate	353	353
	(750)	(1,887)
Net cash used in investing activities	(1,877)	(2,858)
Cash flows from financing activities :		
Dividend paid by the company	(516)	(774)
Dividends paid by subsidiaries to non-controlling interests	(20)	(20)
	(536)	(794)
Net cash used in financing activities	(2,413)	(3,652)
Net decrease in cash and cash equivalents	9,152	11,866
Cash and cash equivalents at beginning of the financial period	(6)	(49)
Cash and cash equivalents at end of the financial period	6,733	8,165
Represented by :		
Fixed deposits	2,298	3,198
Cash and bank balances	4,435	4,967
	6,733	8,165

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share capital \$'000	Capital reserve \$'000	Foreign currency translation reserve \$'000	Retained profits \$'000	Total attributable to equity holders of Company \$'000	Non-controlling interests \$'000	Total equity \$'000
GROUP							
At 1 August 2019	33,279	357	1,589	27,073	62,298	2,584	64,882
(Loss)/Profit for the financial period	0	0	0	(636)	(636)	71	(565)
Other comprehensive income for the financial period	0	0	122	0	122	9	131
Total comprehensive income for the financial period	0	0	122	(636)	(514)	80	(434)
Dividends paid by							
- the Company	0	0	0	(516)	(516)	0	(516)
- subsidiaries to non-controlling interests	0	0	0	0	0	(20)	(20)
At 31 January 2020	33,279	357	1,711	25,921	61,268	2,644	63,912
At 1 August 2018 (as previously stated)	33,279	145	(8,522)	39,264	64,166	2,632	66,798
Adoption of SFRS(I) 1	0	0	10,475	(10,475)	0	0	0
Adoption of SFRS(I) 9	0	243	0	(247)	(4)	(1)	(5)
At 1 August 2018 (as restated)	33,279	388	1,953	28,542	64,162	2,631	66,793
(Loss)/Profit for the financial period	0	0	0	(634)	(634)	73	(561)
Other comprehensive income for the financial period	0	(8)	(706)	0	(714)	(51)	(765)
Total comprehensive income for the financial period	0	(8)	(706)	(634)	(1,348)	22	(1,326)
Dividends paid by							
- the Company	0	0	0	(774)	(774)	0	(774)
- subsidiaries to non-controlling interests	0	0	0	0	0	(20)	(20)
At 31 January 2019	33,279	380	1,247	27,134	62,040	2,633	64,673
	Share capital \$'000	Retained profits \$'000	Total equity \$'000				
COMPANY							
At 1 August 2019	33,279	6,285	39,564				
Loss for the financial period	0	(852)	(852)				
Dividend paid	0	(516)	(516)				
At 31 January 2020	33,279	4,917	38,196				
At 1 August 2018	33,279	8,172	41,451				
Loss for the financial period	0	(795)	(795)				
Dividend paid	0	(774)	(774)				
At 31 January 2019	33,279	6,603	39,882				

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Not Applicable

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The total number of issued ordinary shares as at 31 January 2020 was 25,812,520 (31 January 2019 : 25,812,520).

2 Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures for the period ended 31 January 2020 have not been audited or reviewed.

3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).

Not Applicable

4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as compared with the most recent audited financial statements for the year ended 31 July 2019 except as disclosed in item 5 below.

5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Adoption of Singapore Financial Reporting Standards (International) ["SFRS(I)s"] 6 Leases.

SFRS(I) 6 results in leases being recognised on the statements of the financial position as the distinction between operating and finance lease is removed. Under the new accounting standard, an asset recognising the right-of-use of the leased item and a lease liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. Lessor accounting remains largely similar to the previous accounting standard.

The Group is currently assessing the potential impact arising from the adoption of the standard.

6 Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	GROUP 6 months ended	
	31/01/2020	31/01/2019
Loss for the financial period attributable to equity holders of the Company	(\$636,000)	(\$634,000)
Weighted average number of ordinary shares in issue	25,812,520	25,812,520
Basic earnings per share (in cents)	(2.46)	(2.46)
Diluted earnings per share (in cents)	(2.46)	(2.46)

7 Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-

- (a) current financial period reported on; and
(b) immediately preceding financial year.

	GROUP		COMPANY	
	31/01/2020	31/07/2019	31/01/2020	31/07/2019
Net asset value per ordinary share based on total number of issued shares	\$2.37	\$2.41	\$1.47	\$1.53

8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

	6 months ended		Increase/ (Decrease)
	31/01/2020 \$'000	31/01/2019 \$'000	\$'000
REVENUE			
Wheat flour and other consumer products trading			
Tong Guan Food Products Sdn Bhd ('TGF')	15,207	16,405	(1,198)
Swhee Hin Chan Company Sdn Berhad ('SHC')	13,193	14,782	(1,589)
Others	678	644	34
	<u>29,078</u>	<u>31,831</u>	<u>(2,753)</u>

Group turnover of \$29,078,000 was 8.6% lower than the same preceding period's \$31,831,000. The decrease in Group turnover was attributable to, among other factors, (i) lower sales of animal feed and starches, which affected the turnover of SHC, a subsidiary operating in Penang; and (ii) a short supply of biscuits and the loss of certain customers faced by TGF, a subsidiary operating in Sabah.

The combined net profit after tax for SHC and TGF for the half year was \$516,000, almost the same as compared with the previous period of \$519,000. SHC improved its profit margin in the sales of starches as the subsidiary became more selective in its customers. TGF, on the other hand experienced lower profit from the sales of biscuits and wheat flour though the profit from other goods generally improved.

The group turnover of our associate United Malayan Flour (1996) Sdn Bhd increased from \$37,479,000 to \$40,339,000 due mainly to the improved sales of its oats products by its subsidiary to its overseas markets. However, group net profit after tax decreased from \$4,738,000 to \$3,084,000 because of higher cost of raw materials which eroded its milling margin.

The Company has rented out another unit at its redeveloped heritage building, leaving three units to be tenanted out.

9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not Applicable

10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The group operations continued to be affected by higher cost of raw materials and keen market competition. In addition, with the uncertainties surrounding the outbreak of the COVID-19 virus, the directors envisage another challenging environment for the second half year.

11 Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None

(c) Date payable

Not Applicable

(d) Books closure date

Not Applicable

12 If no dividend has been declared (recommended), a statement to the effect and the reason(s) for the decision.

No dividend has been declared for the first half year. The Company normally decides dividend payments at the end of each financial year.

13 Negative Assurance

The Board of Directors hereby confirms to the best of their knowledge that nothing has come to their attention which may render the financial statements for the period ended 31 January 2020 to be false or misleading in any material aspect.

14 Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in appendix 7.7) under rule 720(1).

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in appendix 7.7 under rule 720(1) of the Listing Manual.

15 Other Announcements

Aggregate value of Interest Person Transactions entered into for the half year ended 31 January 2020.

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
	\$	\$
Purchases from		
Chung Ying Confectionery & Food Products Sdn Bhd	--	1,020,000
Federal Oats Mills Sdn Bhd	--	100,000
Khong Guan Biscuit Factory (Borneo) Sdn Bhd	--	2,195,000
Leong Hong Oil Mill Sdn Bhd	--	155,000
United Malayan Flour (1996) Sdn Bhd	--	6,629,000
Sales to		
Khian Guan Biscuit Manufacturing Co Sdn Bhd	--	317,000
Khong Guan Biscuit Factory (Johore) Sdn Bhd	--	173,000
Poh Seng Trading (Ipoh) Sdn Bhd	--	982,000
Sunshine Traders Sdn Bhd	--	334,000

BY ORDER OF THE BOARD
KOE ENG CHUAN
Company Secretary
12 March 2020