



KHONG GUAN LIMITED
(formerly known as Khong Guan Flour Milling Limited)
(Company Reg. No. 196000096G)

Half Year Financial Statement And Dividend Announcement for the Period Ended 31/01/2017

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		Increase/(Decrease) %
		31/01/2017 S\$'000	31/01/2016 S\$'000	
Revenue		28,710	29,217	(1.74)
Other income	1	89	202	(55.94)
Changes in short-term investments	2	(818)	(894)	(8.50)
Changes in inventories	3	(1,489)	507	NM
Purchases of short-term investments		(826)	(567)	45.68
Purchases of inventories		(22,224)	(25,935)	(14.31)
Employee benefits expense		(1,957)	(2,024)	(3.31)
Depreciation and amortisation expenses		(254)	(269)	(5.58)
Share of results of associates, net of tax	4	763	915	(16.61)
Other expenses	5	(1,501)	(1,236)	21.44
Profit/(Loss) before tax		493	(84)	NM
Income tax expense	6	(319)	(266)	19.92
Profit/(Loss) for the financial period		<u>174</u>	<u>(350)</u>	NM
Profit/(Loss) for the financial period attributable to :				
Equity holders of the company		95	(483)	NM
Non-controlling interests		79	133	(40.60)
		<u>174</u>	<u>(350)</u>	NM

NM - Not Meaningful

Statement of Comprehensive Income

	GROUP	
	31/01/2017 S\$'000	31/01/2016 S\$'000
Profit/(Loss) for the financial period	174	(350)
Other comprehensive income :		
Items that may be subsequently reclassified to profit or loss:		
Share of associates' capital reserve	0	4
Translation differences relating to financial statements of foreign operations	(1,159)	(1,502)
Other comprehensive income, net of tax	(1,159)	(1,498)
Total comprehensive income for the financial period	<u>(985)</u>	<u>(1,848)</u>
Total comprehensive income attributable to :		
Equity holders of the company	(986)	(1,884)
Non-controlling interests	1	36
	<u>(985)</u>	<u>(1,848)</u>

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

	31/01/2017 S\$'000	31/01/2016 S\$'000
(a) Investment income	100	83
(b) Interest income	69	79
(c) Interest on borrowings	0	0
(d) Depreciation and amortisation	(254)	(269)
(e) Allowance for doubtful receivables made	(360)	(9)
(f) Write off for stock obsolescence	0	0
(g) Impairment loss on unquoted investments	0	0
(h) Foreign exchange loss	(134)	(179)
(i) Overprovision of tax in respect of prior years	0	0
(j) Profit on sale of quoted short-term investments	177	105
(k) Profit on disposal of property, plant and equipment	2	70
(l) Fair value gain/(loss) on short-term investments, unrealised	15	(1,077)

Notes :

1 Other income

	31/01/2017 S\$'000	31/01/2016 S\$'000
Profit on disposal of property, plant and equipment	2	70
Rental and transport delivery received	0	31
Interest income and others	87	101
	<u>89</u>	<u>202</u>

2 Changes in short-term investments

	31/01/2017 S\$'000	31/01/2016 S\$'000
Purchases	826	567
Cost of sales		
Cost of investments sold	(2,001)	(585)
Fair value loss, realised	342	201
Fair value of investments sold	(1,659)	(384)
Fair value gain/(loss), unrealised	15	(1,077)
	<u>(818)</u>	<u>(894)</u>

3 The shortage of edible oil and the termination of distributorship for a line of beverages and dairy products by Tong Guan Food Products Sdn Bhd coupled with the reduction in the purchases of starches due to unfavourable prices by Swee Hin Chan Co Sdn Bhd had caused the carrying value of inventory to be lower.

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

5 The increase was due mainly to the allowance made for doubtful receivables amounting to S\$360,000 which is further elaborated under item 8.

6 Income tax expense

	31/01/2017 S\$'000	31/01/2016 S\$'000
Current taxation		
- Malaysian tax	301	342
- tax deducted at source	1	1
Deferred taxation	17	(77)
	<u>319</u>	<u>266</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.

	Notes	GROUP		COMPANY	
		31/01/2017 S\$'000	31/07/2016 S\$'000	31/01/2017 S\$'000	31/07/2016 S\$'000
ASSETS AND LIABILITIES					
Non-Current Assets					
Property, plant and equipment		3,491	3,672	347	381
Prepaid lease		1,522	1,599	0	0
Investment property		6,412	5,111	6,412	5,111
Investments in subsidiaries		0	0	18,287	18,287
Investments in associates	1	17,511	17,869	0	0
Long-term investments	2	928	929	906	906
		29,864	29,180	25,952	24,685
Current Assets					
Inventories		4,824	6,489	0	0
Short-term investments	3	6,447	7,265	0	0
Trade receivables		9,906	11,450	426	486
Other receivables		461	336	202	200
Tax recoverable		216	150	0	0
Amounts owing by subsidiaries		0	0	5,286	5,277
Fixed deposits		11,825	14,392	11,755	14,322
Cash and bank balances		5,253	3,097	864	825
		38,932	43,179	18,533	21,110
Less					
Current Liabilities					
Trade payables		3,847	5,513	213	205
Other payables		826	889	536	510
		4,673	6,402	749	715
Net Current Assets		34,259	36,777	17,784	20,395
Less					
Non-Current Liabilities					
Provision for retirement benefits		231	307	231	307
Deferred tax liabilities		528	515	0	0
		759	822	231	307
Net Assets		63,364	65,135	43,505	44,773
EQUITY					
Share capital		33,279	33,279	33,279	33,279
Capital reserves		140	140	0	0
Foreign currency translation reserves	4	(10,183)	(9,102)	0	0
Retained profits		37,800	38,479	10,226	11,494
Attributable to equity holders of the company		61,036	62,796	43,505	44,773
Non-controlling interests		2,328	2,339	0	0
Total Equity		63,364	65,135	43,505	44,773

Notes :

1 Investments in associates

	GROUP	
	31/01/2017 S\$'000	31/07/2016 S\$'000
Unquoted equity investments, at cost	12,328	12,328
Share of post-acquisition reserves	11,226	10,999
Share of post-acquisition capital reserve	140	140
Foreign currency translation reserves	(6,183)	(5,598)
	17,511	17,869

2 Long-term Investments

	GROUP		COMPANY	
	31/01/2017 S\$'000	31/07/2016 S\$'000	31/01/2017 S\$'000	31/07/2016 S\$'000
Unquoted equity investments, at cost	1,275	1,275	1,246	1,246
Less				
Impairment losses :				
Balance at beginning of the financial period	(346)	(350)	(340)	(340)
Disposal	0	2	0	0
Translation difference	(1)	2	0	0
Balance at end of the financial period	(347)	(346)	(340)	(340)
	<u>928</u>	<u>929</u>	<u>906</u>	<u>906</u>

3 Short-term Investments

	GROUP	
	31/01/2017 S\$'000	31/07/2016 S\$'000
Quoted investments, at fair value		
Balance at beginning of the financial period	7,265	7,847
Sales	(1,659)	(1,101)
Purchases	826	1,331
Fair value gain/(loss), unrealised	15	(812)
Balance at end of the financial period	<u>6,447</u>	<u>7,265</u>

4 The increase arose from the continued weakening of Ringgit Malaysia against Singapore dollar.

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

	As at 31/01/2017		As at 31/07/2016	
	Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'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 holding company.

1(b)(iii) Additional information

	Short-term Quoted Securities S\$	Long-term Quoted Securities S\$	Total S\$	*Percentage of NTA
Cost as at 1 August 2016	7,800,051	0	7,800,051	12.78
Purchases	826,012	0	826,012	1.35
Cost of investments sold	(2,000,601)	0	(2,000,601)	(3.28)
Cost as at 31 January 2017	6,625,462	0	6,625,462	10.86
Fair value loss movements				
Balance as at 1 August 2016	(534,611)	0	(534,611)	(0.88)
Fair value gain, unrealised	14,575	0	14,575	0.02
Fair value loss, realised	341,726	0	341,726	0.56
Balance as at 31 January 2017	(178,310)	0	(178,310)	(0.29)
Fair value as at 31 January 2017	<u>6,447,152</u>	<u>0</u>	<u>6,447,152</u>	10.56
Fair value as at 31 July 2016	7,265,440	0	7,265,440	

* NTA (Net Tangible Assets Value) is based on the unaudited consolidated statement of financial position as at 31 January 2017.

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	
	31/01/2017	31/01/2016
	S\$'000	S\$'000
Cash flows from operating activities :		
Profit/(Loss) before tax	493	(84)
Adjustments for non-cash and other items :		
Allowance for doubtful trade receivables	360	9
Depreciation and amortisation expenses	254	269
Fair value (gain)/loss on short-term investments	(15)	1,077
Profit on disposal of property, plant and equipment	(2)	(70)
Interest income	(69)	(79)
Provision for retirement benefits	14	18
Share of results of associates, net of tax	(763)	(915)
	(221)	309
Operating profit before working capital changes	272	225
Decrease/(Increase) in short-term investments	833	(183)
Decrease/(Increase) in inventories	1,489	(507)
Decrease/(Increase) in trade and other receivables	648	(1,841)
(Decrease)/Increase in trade and other payables	(1,582)	461
	1,388	(2,070)
Cash generated from/(used in) operations	1,660	(1,845)
Income tax paid	(302)	(277)
Interest received	69	79
Payment of retirement benefits	(90)	(31)
	(323)	(229)
Net cash generated from/(used in) operating activities	1,337	(2,074)
Cash flows from investing activities :		
Purchase of property, plant and equipment	(125)	(778)
Addition to investment property	(1,301)	(128)
Proceeds from disposal of property, plant and equipment	2	108
Dividends received from associates	536	524
	(888)	(274)
Net cash used in investing activities	449	(2,348)
Cash flows from financing activities :		
Dividends paid by the company	(774)	(774)
Dividends paid by subsidiaries to non-controlling interests	(12)	(13)
	(786)	(787)
Net cash used in financing activities	(337)	(3,135)
Net decrease in cash and cash equivalents	17,489	21,397
Cash and cash equivalents at beginning of the period	(74)	(90)
Effects of currency translations on cash and cash equivalents	17,078	18,172
Cash and cash equivalents at end of the financial period	17,078	18,172
Fixed deposits	11,825	15,978
Cash and bank balances	5,253	2,391
Bank overdrafts	0	(197)
	17,078	18,172

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 S\$'000	Capital reserves S\$'000	Foreign currency translation reserves S\$'000	Retained profits S\$'000	Total attributable to equity holders of company S\$'000	Non-controlling interests S\$'000	Total equity S\$'000
GROUP							
At 1 August 2016	33,279	140	(9,102)	38,479	62,796	2,339	65,135
Profit for the financial period	0	0	0	95	95	79	174
Other comprehensive income for the financial period	0	0	(1,081)	0	(1,081)	(78)	(1,159)
Total comprehensive income for the financial period	0	0	(1,081)	95	(986)	1	(985)
Dividends paid							
- the company	0	0	0	(774)	(774)	0	(774)
- subsidiaries to non-controlling interests	0	0	0	0	0	(12)	(12)
At 31 January 2017	33,279	140	(10,183)	37,800	61,036	2,328	63,364
At 1 August 2015	33,279	104	(6,417)	39,195	66,161	2,374	68,535
(Loss)/Profit for the financial period	0	0	0	(483)	(483)	133	(350)
Other comprehensive income for the financial period	0	4	(1,405)	0	(1,401)	(97)	(1,498)
Total comprehensive income for the financial period	0	4	(1,405)	(483)	(1,884)	36	(1,848)
Dividends paid							
- the company	0	0	0	(774)	(774)	0	(774)
- subsidiaries to non-controlling interests	0	0	0	0	0	(13)	(13)
At 31 January 2016	33,279	108	(7,822)	37,938	63,503	2,397	65,900
COMPANY							
At 1 August 2016	33,279	0	0	11,494	44,773		
Loss for the financial period	0	0	0	(494)	(494)		
Dividends paid	0	0	0	(774)	(774)		
At 31 January 2017	33,279	0	0	10,226	43,505		
At 1 August 2015	33,279	0	0	13,636	46,915		
Loss for the financial period	0	0	0	(850)	(850)		
Dividends paid	0	0	0	(774)	(774)		
At 31 January 2016	33,279	0	0	12,012	45,291		

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 2017 was 25,812,520 (31 January 2016 : 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 2017 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 2016.

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.

The Group has adopted all the new and revised Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2016. The adoption of these new/revised FRS and INT FRS did not result in changes to the group's and the company's accounting policies and had no material impact on the results under review.

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	
	31/01/2017	31/01/2016
Profit/(Loss) for the financial period attributable to equity holders of the company	S\$95,000	S\$(483,000)
Weighted average number of ordinary shares in issue	25,812,520	25,812,520
Basic earnings per share (in cents)	0.37	(1.87)
Diluted earnings per share (in cents)	0.37	(1.87)

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	
	31/01/2017	31/07/2016	31/01/2017	31/07/2016
Net asset value per ordinary share based on total number of issued shares	S\$2.36	S\$2.43	S\$1.69	S\$1.73

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.

Group turnover for the period under review decreased to S\$28,710,000 from S\$29,217,000 for the comparative period. A detailed breakdown of the Group turnover is as follow :

	31/01/2017 S\$'000	31/01/2016 S\$'000	Increase/ (Decrease) S\$'000
Wheat flour and other consumer products trading			
Tong Guan Food Products Sdn Bhd ('TGF')	16,180	17,636	(1,456)
Swee Hin Chan Company Sdn Berhad ('SHC')	9,874	10,233	(359)
Others	720	777	(57)
	26,774	28,646	(1,872)
Investment trading			
Sales	1,836	488	1,348
Dividend income	100	83	17
	1,936	571	1,365
	28,710	29,217	(507)

Despite a decrease in Group turnover, the Group's profit increased by S\$524,000 from a loss of S\$350,000 for the comparative period to a profit of S\$174,000. This is mainly due to the following :

	31/01/2017 S\$'000	31/01/2016 S\$'000	Increase/ (Decrease) S\$'000
Profits attributable to two principal Malaysian subsidiaries	517	960	(443)
Share of results of associates, net of tax	763	915	(152)
Fair value loss on short-term investments, unrealised	15	(1,077)	1,092
Foreign exchange loss	(134)	(179)	45
Others	0	18	(18)
	1,161	637	524

TGF operating in Sabah as distributors and agents for foodstuffs and household products, experienced a decrease in turnover mainly due to a decrease in sale of wheat flour and edible goods. On top of the usual competition from wholesalers and distributors for a share of the wheat flour market, the company faced new competition from flour millers selling directly to end-users. During the period, TGF also lost the distributorship for a line of beverages and dairy products.

SHC, operating in Penang as wholesalers of wheat flour and starches, reported a lower turnover following the loss of a major customer who has been granted PN 17 status from the Malaysian High Court. The Group has made an allowance for doubtful receivables amounting to \$360,000 against the amount owing by this customer who is a non-interested person and has no connections whatsoever with the Group. SHC's decrease in turnover was partially compensated by an increase in the selling price of starches.

With the stock market staging a recovery, the Group took the opportunity to dispose of more of its short-term quoted investments compared to the previous period. The Group also recorded a small unrealised fair value gain compared to a unrealised fair value loss of \$1,077,000 for the previous period.

Our 30% equity held associate, United Malayan Flour (1966) Sdn Bhd ("UMF") reported profit after taxation of \$2,555,000 (2016: \$3,052,000) on a turnover of \$37,359,000 (2016: \$37,731,000). Sales of oats products improved significantly but sales of flour was lower due to keen competition. Competition from other flour millers and higher cost of raw materials arising from the continued weakening of the Ringgit Malaysia have resulted in a lower profit for the current period.

REDEVELOPMENT OF HERITAGE BUILDING

The construction work of our heritage building is progressing as scheduled and is expected to be completed within the calendar year.

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.

In anticipation of an improvement of the Group's operations in Malaysia, the directors are optimistic that the results for the second half year will be better.

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.

No dividend has been declared for the first half year.

13 Negative Assurance

The Board of Directors hereby confirm 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 2017 to be false or misleading in any material aspect.

14 Other Announcements

Aggregate value of Interest Person Transactions entered into for the half year ended 31 January 2017

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 S\$100,000)
	S\$	S\$
Purchases from		
United Malayan Flour (1996) Sdn Bhd	--	5,832,000
Khong Guan Biscuit Factory (Borneo) Sdn Bhd	--	2,103,000
Chung Ying Confectionery & Food Products Sdn Bhd	--	1,252,000
Leong Hong Oil Mill Sdn Bhd	--	644,000
Federal Oats Mills Sdn Bhd	--	124,000
Sales to		
Khian Guan Biscuit Manufacturing Co Sdn Bhd	--	137,000
Lian Seng Hang Sdn Bhd	--	615,000
Poh Seng Trading (Ipoh) Sdn Bhd	--	744,000
Soon Guan Chan Sdn Bhd	--	179,000
Sunshine Traders Sdn Bhd	--	321,000
Thong Hong Trading Sdn Bhd	--	167,000

BY ORDER OF THE BOARD**KOE ENG CHUAN**

Company Secretary

16 March 2017