



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

Half Year Financial Statement And Dividend Announcement for the Period Ended 31/01/2019

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) %
		31/01/2019 \$'000	31/01/2018 \$'000	
Revenue		33,236	28,781	15.48
Other income	1	121	332	(63.55)
Changes in short-term investments	2	(325)	572	NM
Changes in inventories		(1,219)	(1,161)	5.00
Purchases of short-term investments		(1,227)	(780)	57.31
Purchases of inventories		(27,866)	(23,682)	17.67
Employee benefits expense		(2,169)	(2,023)	7.22
Depreciation and amortisation expenses		(277)	(256)	8.20
Share of result of associate, net of tax	3	470	404	16.34
Other expenses	4	(1,195)	(957)	24.87
(Loss)/Profit before tax		(451)	1,230	(136.67)
Income tax expense	5	(110)	(317)	(65.30)
(Loss)/Profit for the financial period		(561)	913	(161.45)
(Loss)/Profit for the financial period attributable to :				
Equity holders of the Company		(634)	792	(180.05)
Non-controlling interests		73	121	(39.67)
		(561)	913	(161.45)

NM - Not Meaningful

Statement of Comprehensive Income

	GROUP 6 months ended	
	31/01/2019 \$'000	31/01/2018 \$'000
(Loss)/Profit for the financial period	(561)	913
Other comprehensive income :		
Items that may be subsequently reclassified to profit or loss:		
Share of associate's capital reserve	(8)	(38)
Translation differences relating to financial statements of foreign operations	(757)	2,158
Other comprehensive income, net of tax	(765)	2,120
Total comprehensive income for the financial period	(1,326)	3,033
Total comprehensive income attributable to :		
Equity holders of the Company	(1,348)	2,768
Non-controlling interests	22	265
	(1,326)	3,033

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

	GROUP	
	6 months ended	
	31/01/2019	31/01/2018
	\$'000	\$'000
(a) Investment income	77	74
(b) Interest income	64	69
(c) Interest on borrowings	0	0
(d) Depreciation and amortisation	(277)	(256)
(e) Allowance for doubtful receivables made	0	0
(f) Write off for stock obsolescence	0	0
(g) Impairment loss on unquoted investments	0	0
(h) Foreign exchange (loss)/gain	(92)	250
(i) Under or overprovision of tax in respect of prior years	0	0
(j) Profit on sale of quoted short-term investments	46	126
(k) Profit on disposal of property, plant and equipment	0	0
(l) Fair value (loss)/gain on short-term investments, unrealised	(270)	515

Notes :

1 Other income

	31/01/2019	31/01/2018
	\$'000	\$'000
Foreign exchange gain	0	250
Rental income	45	0
Interest income and others	76	82
	<u>121</u>	<u>332</u>

2 Changes in short-term investments

	31/01/2019	31/01/2018
	\$'000	\$'000
Purchases	1,227	780
Cost of sales		
Cost of investments sold	(834)	(699)
Fair value gain, realised	(448)	(24)
Fair value of investments sold	(1,282)	(723)
Fair value (loss)/gain, unrealised	(270)	515
	<u>(325)</u>	<u>572</u>

3 The share of result of associate is explained in the review of the Group performance under item 8.

4 In addition to the yearly staff increment, the increase was also due to foreign exchange loss and building maintenances incurred during the period amounting to \$92,000 and \$56,000 respectively.

5 Income tax expense

	31/01/2019	31/01/2018
	\$'000	\$'000
Current taxation		
- Malaysian tax	173	288
- tax deducted at source	1	1
Deferred taxation	(64)	28
	<u>110</u>	<u>317</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.

Immediately preceding financial year.

		GROUP		COMPANY	
		31/01/2019	31/07/2018	31/01/2019	31/07/2018
Note		\$'000	\$'000	\$'000	\$'000
			(restated)		
ASSETS AND LIABILITIES					
Non-Current Assets					
Property, plant and equipment	1	4,174	3,261	922	269
Prepaid lease		1,465	1,519	0	0
Investment property		14,477	13,447	14,477	13,447
Investments in subsidiaries		0	0	18,287	18,287
Investment in associate	2	19,428	19,700	0	0
Long-term investment					
- Fair value through other comprehensive income	3	23	0	0	0
- Available-for-sale	3	0	24	0	0
		39,567	37,951	33,686	32,003
Current Assets					
Inventories		6,324	7,684	0	8
Short-term investments	4	5,099	5,424	0	0
Trade receivables		12,502	11,208	341	318
Other receivables	5	155	783	105	350
Tax recoverable		388	396	0	0
Amounts owing by subsidiaries		0	0	3,396	3,542
Fixed deposits		3,198	4,201	3,131	4,133
Cash and bank balances		4,967	7,665	1,320	3,016
		32,633	37,361	8,293	11,367
Less					
Current Liabilities					
Trade payables		4,996	6,021	140	328
Other payables		1,918	1,831	1,684	1,332
		6,914	7,852	1,824	1,660
Net Current Assets		25,719	29,509	6,469	9,707
Less					
Non-Current Liabilities					
Provision for retirement benefits		273	259	273	259
Deferred tax liabilities		337	403	0	0
		610	662	273	259
Net Assets		64,676	66,798	39,882	41,451
EQUITY					
Share capital		33,279	33,279	33,279	33,279
Capital reserve		137	145	0	0
Foreign currency translation reserves		1,247	1,953	0	0
Retained profits		27,381	28,789	6,603	8,172
Attributable to equity holders of the Company		62,044	64,166	39,882	41,451
Non-controlling interests		2,634	2,632	0	0
Total Equity		64,678	66,798	39,882	41,451

Notes :

- In addition to the completion of renovation work performed for level 3 and level 4 of the Company's newly developed industrial building, a Malaysian subsidiary (TGF) had commenced construction of a new warehouse and office block during the period.
- Investment in associate

	GROUP	
	31/01/2019 \$'000	31/07/2018 \$'000
Unquoted equity investment, at cost	12,035	12,035
Share of post-acquisition reserves	12,833	12,716
Share of capital reserve	137	145
Foreign currency translation reserves	(5,577)	(5,196)
	19,428	19,700

3 Long-term Investment

	GROUP	
	31/01/2019 \$'000	31/07/2018 \$'000
Unquoted equity investments, at cost	30	31
Less		
Impairment losses :		
Balance at beginning of the financial period	(7)	(6)
Currency translation difference	0	(1)
Balance at end of the financial period	(7)	(7)
	<u>23</u>	<u>24</u>

4 Short-term Investments

	GROUP	
	31/01/2019 \$'000	31/07/2018 \$'000
Quoted investments, at fair value		
Balance at beginning of the financial period	5,424	5,836
Sales	(1,282)	(2,315)
Purchases	1,227	1,644
Fair value (loss)/gain, unrealised	(270)	259
Balance at end of the financial period	<u>5,099</u>	<u>5,424</u>

- 5 The lower other receivables was due to advance payments reclassified to property, plant and equipment and purchases upon completion of renovation of level 3 and level 4 of the Company's newly developed industrial building and completion of delivery of imported purchases.

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

	As at 31/01/2019		As at 31/07/2018	
	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 \$	*Percentage of NTA
Cost as at 1 August 2018	5,734,188	9.24
Purchases	1,227,032	1.98
Cost of investments sold	<u>(833,824)</u>	<u>(1.34)</u>
Cost as at 31 January 2019	6,127,396	9.88
Fair value movements		
Balance as at 1 August 2018	(309,886)	(0.50)
Fair value gain, realised	(448,418)	(0.72)
Fair value loss, unrealised	<u>(269,675)</u>	<u>(0.43)</u>
Balance as at 31 January 2019	<u>(1,027,979)</u>	<u>(1.66)</u>
Fair value as at 31 January 2019	<u>5,099,417</u>	8.22
Fair value as at 31 July 2018	<u>5,424,302</u>	

* NTA (Net Tangible Assets Value) is based on the unaudited consolidated statement of financial position as at 31 January 2019

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	
	31/01/2019	31/01/2018
	\$'000	\$'000
Cash flows from operating activities :		
(Loss)/Profit before tax	(451)	1,230
Adjustments for non-cash and other items :		
Depreciation and amortisation expenses	277	256
Fair value loss/(gain) on short-term investments	270	(515)
Interest income	(64)	(69)
Provision for retirement benefits	14	14
Share of result of associate, net of tax	(470)	(404)
	27	(718)
Operating (loss)/profit before working capital changes	(424)	512
Decrease/(Increase) in short-term investments	55	(57)
Decrease in inventories	1,219	1,161
Increase in trade and other receivables	(884)	(2,238)
(Decrease)/Increase in trade and other payables	(826)	834
	(436)	(300)
Cash (used in)/generated from operations	(860)	212
Income tax paid	(175)	(289)
Interest received	64	69
	(111)	(220)
Net cash used in operating activities	(971)	(8)
Cash flows from investing activities :		
Purchase of property, plant and equipment	(1,267)	(195)
Addition to investment property	(1,030)	(3,525)
Proceeds from disposal of property, plant and equipment	57	0
Dividend received from associate	353	527
	(1,887)	(3,193)
Net cash used in investing activities	(2,858)	(3,201)
Cash flows from financing activities :		
Dividend paid by the company	(774)	(774)
Dividends paid by subsidiaries to non-controlling interests	(20)	(12)
	(794)	(786)
Net cash used in financing activities	(3,652)	(3,987)
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of the financial period	11,866	14,722
Effects of currency translations on cash and cash equivalents	(49)	102
Cash and cash equivalents at end of the financial period	8,165	10,837
Fixed deposits	3,198	5,147
Cash and bank balances	4,967	5,690
	8,165	10,837

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 reserves \$'000	Retained profits \$'000	Total attributable to equity holders of Company \$'000	Non- controlling interests \$'000	Total equity \$'000
GROUP							
At 1 August 2018	33,279	145	(8,522)	39,264	64,166	2,632	66,798
Effects of adoption of SFRS(I)	0	0	10,475	(10,475)	0	0	0
At 1 August 2018 (restated)	33,279	145	1,953	28,789	64,166	2,632	66,798
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	137	1,247	27,381	62,044	2,634	64,678
At 1 August 2017	33,279	190	(10,475)	39,001	61,995	2,361	64,356
Effects of adoption of SFRS(I)	0	0	10,475	(10,475)	0	0	0
At 1 August 2017 (restated)	33,279	190	0	28,526	61,995	2,361	64,356
Profit for the financial period	0	0	0	792	792	121	913
Other comprehensive income for the financial period	0	(38)	2,014	0	1,976	144	2,120
Total comprehensive income for the financial period	0	(38)	2,014	792	2,768	265	3,033
Dividends paid by							
- the Company	0	0	0	(774)	(774)	0	(774)
- subsidiaries to non-controlling interests	0	0	0	0	0	(12)	(12)
At 31 January 2018	33,279	152	2,014	28,544	63,989	2,614	66,603
	Share capital \$'000	Retained profits \$'000	Total equity \$'000				
COMPANY							
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				
At 1 August 2017	33,279	9,631	42,910				
Loss for the financial period	0	(286)	(286)				
Dividend paid	0	(774)	(774)				
At 31 January 2018	33,279	8,571	41,850				

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 2019 was 25,812,520 (31 January 2018 : 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 2019 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.

In December 2017, the Accounting Standards Council (ASC) issued Singapore Financial Reporting Standards (International) ("SFRS(I)") comprises standards and interpretations that are equivalent to International Financial Reporting Standards as issued by International Accounting Standards Boards. The Group's financial statements for the financial year ending 31 July 2019 will be prepared in accordance with SFRS(I) issued by ASC.

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 2018 except for the adoption of new/revised SFRS(I)s and Interpretation of SFRS(I)s ("SFRS(I) INT") applicable for the financial year beginning on 1 August 2018 as follows:

SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)
SFRS(I) 9 Financial Instruments
SFRS(I) 15 Revenue from Contracts with Customers

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.

(a) SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)

The Group is required to retrospectively apply all SFRS(I) effective at the end of the first SFRS(I) reporting period (financial year ending 31 July 2019), subject to the mandatory exceptions and optional exemptions under SFRS(I) 1. The Group has elected the relevant optional exemptions and the exemptions resulting in adjustments to the Group's financial statements are as follows:

Cumulative translation differences

The Group has elected for the optional exemption to reset its cumulative translation differences for all foreign operations to \$NIL at the date of transition at 1 August 2017. As a result, cumulative translation losses of \$10,475,000 were reclassified from foreign currency translation reserves to retained profits as at 1 August 2017 for the Group. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before 1 August 2017.

(b) Adoption of SFRS(I) 9 Financial Instruments

The Group has applied the exemption in SFRS(I) 9 which allowed it not to restate comparative information. Differences in the carrying amounts of financial assets and liabilities resulting from the adoption of SFRS(I) 9 are recognised as an adjustment to the opening balance of retained profits and reserves as at 1 August 2017.

Investments

On adoption of SFRS(I) 9, the Group has reclassified "Long-term investment - available-for-sale ("AFS")" of \$24,000 to "Long-term investment - fair value through OCI ("FVOCI")" of \$23,000 in the statement of financial position.

The Group continues to measure "Short-term investments" at fair value through profit or loss ("FVPL").

Trade receivables

The Group's trade receivables are subject to SFRS(I) 9's new expected credit loss model. The Group is currently assessing the potential impact arising from the revision of its impairment methodology under SFRS(I) 9.

(c) Adoption of SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under SFRS(I) 15, an entity recognises revenue when (or as) a performance obligation is satisfied. The impact of the adoption on both current and prior year's profit or loss and cumulative impact on opening retained profit is assessed to be immaterial.

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	
	31/01/2019	31/01/2018
(Loss)/Profit for the financial period attributable to equity holders of the Company	(634,000)	792,000
Weighted average number of ordinary shares in issue	25,812,520	25,812,520
Basic earnings per share (in cents)	(2.46)	3.07
Diluted earnings per share (in cents)	(2.46)	3.07

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	
	31/01/2019	31/07/2018	31/01/2019	31/07/2018
Net asset value per ordinary share based on total number of issued shares	\$2.40	\$2.49	\$1.55	\$1.61

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

	6 months ended		Increase/ (Decrease)
	31/01/2019 \$'000	31/01/2018 \$'000	\$'000
Wheat flour and other consumer products trading			
Tong Guan Food Products Sdn Bhd ('TGF')	16,405	15,918	487
Swee Hin Chan Company Sdn Berhad ('SHC')	14,782	11,352	3,430
Others	644	588	56
	31,831	27,858	3,973
Investment trading			
Sales	1,328	849	479
Dividend income	77	74	3
	1,405	923	482
	33,236	28,781	4,455

The increase in Group turnover from \$28,781,000 to \$33,236,000 was mainly attributed to the improved sales by a trading subsidiary, SHC as well as an increase in short-term investment trading.

SHC, located in Penang and deals in wheat flour, animal feed and imported starches, recorded a 30.2% increase in sales from \$11,352,000 to \$14,782,000. The increase was most evident in the strong performance of starches.

Another trading subsidiary, TGF, operating in Sabah, reported a marginal increase in sales (from \$15,918,000 to \$16,405,000) as a result of intense competition.

Despite an improved sales performance from SHC and TGF, market competition and increases in the cost of purchases eroded their profit margin. The combined profit of these two trading subsidiaries was \$519,000, which was lower than that of \$864,000 of the corresponding period.

Though the prevalent stock market was quiet and clouded with uncertainties, the investment trading subsidiaries managed to realise some gains. Sales of short-term investments increased by \$479,000 to \$1,328,000.

United Malayan Flour (1996) Sdn Bhd ('UMF'), our 30% held associate, continued to face keen market competition in the sales of wheat flour and this has put pressure on profit margins. Its oats milling subsidiary fared much better by improving both its sales, especially to overseas market, and its profits. Group sales of UMF was \$37,479,000 (2018: \$38,602,000) and profit after tax was \$1,566,000 (2018: \$1,348,000).

A number of tenants have been secured for the Company's newly developed industrial building and the Company is actively looking for tenants for the rest of the lettable units.

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 trading subsidiaries in Malaysia are operating under very competitive market conditions in the sale of wheat flour, starches, and other edible goods. The milling associate is facing increases in production costs mainly due to higher wheat grain prices.

The trading of short-term investments has been scaled down under existing market conditions.

In addition, fluctuations in foreign exchange rates, as the group's main operations are in Malaysia, and share market sentiments may affect the fair value of our investments. As such, the directors envisage a challenging environment in 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 as the Company declared dividend once every 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 2019 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 2019.

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	--	1,198,000
Khong Guan Biscuit Factory (Borneo) Sdn Bhd	--	2,407,000
Leong Hong Oil Mill Sdn Bhd	--	301,000
United Malayan Flour (1996) Sdn Bhd	--	6,679,000
Sales to		
Khian Guan Biscuit Manufacturing Co Sdn Bhd	--	347,000
Khong Guan Biscuit Factory (Johore) Sdn Bhd	--	166,000
Poh Seng Trading (Ipoh) Sdn Bhd	--	736,000
Sunshine Traders Sdn Bhd	--	324,000

BY ORDER OF THE BOARD

KOE ENG CHUAN

Company Secretary

15 March 2019