

KHONG GUAN LIMITED

(Company Regn. No. 196000096G)

RESPONSE TO SGX-ST QUERIES ON THE ANNOUNCEMENT ON HALF YEAR FINANCIAL STATEMENT FOR THE PERIOD ENDED 31 JANUARY 2020

The Board of Directors of Khong Guan Limited (the "Company") in response to the queries raised by Singapore Exchange Securities Trading Limited ("SGX-ST") on 17 March 2020 wish to provide the information as follows:

SGX Queries:

- (a) Please explain the material variance in the line item "changes in inventories" on page 1 of the Financial Statements.

The Company's Response:

With the inventory at 31 January 2019 and 31 January 2020 remain relatively the same, the decreases in changes in inventories were mainly due to the following:-

- (i) The subsidiary dealing in starches took advantage of the bumper harvest in India to hold more inventory at 31 July 2018 when prices were cheap as compare with inventory at 31 July 2019;
- (ii) The loss of the supply of wheat flour to a fast food chain and the cessation of an agency by another subsidiary after financial year ended 31 July 2018 resulted in the company holding more inventory at 31 July 2018 as compared with inventory at 31 July 2019.

- (b) Please explain the material variances in the following line items on page 3 of the Financial Statements: (i) trade receivables; (ii) cash and bank balances; and (iii) trade payables.

The Company's Response:

- (i) More sales were made in the approximately two months ending 31 January 2020, with the Chinese New Year in late January 2020 and the year end festive period, as is typical, compared with the approximately two months ending 31 July 2019, which resulted in higher trade receivables as of 31 January 2020 compared with 31 July 2019.
- (ii) The variance in respect of cash and bank balances was mainly due to the payment in the first half of FY2020 of \$1,066,000 by the subsidiary for the extension of its existing warehouse and office building and \$516,250 for the annual dividend.
- (iii) Increases in the purchases of goods by another subsidiary for the festive season gave rise to the increase in trade payables.

By Order of the Board
Koe Eng Chuan
Company Secretary
19 March 2020