

**Issuer:** Khong Guan Limited  
**Security:** Khong Guan Limited

**Meeting details:**

Date: 28 November 2017

Time: 11.00 a.m.

Venue: Banquet Hall (Level 3), The Grassroots' Club, 190 Ang Mo Kio Avenue 8, Singapore 568046

**Company Description**

Khong Guan Limited, an investment holding company, trades in wheat flour and other edible products primarily in Singapore and Malaysia. It operates through three segments: Trading Of Wheat Flour and Consumer Goods, Investment Trading, and Investment Holding. The company is involved in the wholesale of wheat flour, general goods, biscuits, consumer goods, and related products, as well as animal feed. In addition, it trades in shares listed in Singapore, Malaysia, and Hong Kong. The company was formerly known as Khong Guan Flour Milling Limited and changed its name to Khong Guan Limited in November 2016. Khong Guan Limited was incorporated in 1960 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=K03](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=K03))

**Q1.** Based on the Review of Operations in the Chairman’s Statement (page 6 of the annual report), the following was disclosed:

## Chairman’s Statement

### Review of Operations

The competitive market conditions and the weak Ringgit Malaysia affected the turnover of our trading subsidiaries which decreased slightly from \$58,708,000 to \$57,111,000.

Following the improvement in the stock market sentiments, our trading in securities increased from \$1,239,000 to \$3,789,000 which resulted in a trading profit of \$499,000 against last year’s \$139,000.

(Source: Company annual report)

- a) **Can the company confirm that the level of “trading in securities” of \$3,789,000 simply refers to the proceeds from the sale of the group’s securities in its investment trading portfolio in the year? What is the significance of this metric? Is this a key performance indicator that is being tracked by management?**
- b) **Could the Chairman consider reporting on the long term performance of the investment trading segment? Shareholders would also like to request for information such as the size of the portfolio, the major investments, the key risks, and management’s view of the market.**

**Q2.** Based on the Consolidated Statement of Comprehensive Income (page 33), the group’s profits for the financial year were \$1.49 million in 2017 and \$0.29 million in 2016 while the share of results of associates, net of tax, were \$1.84 million in 2017 and \$1.60 million in 2016. The associate that contributed the profits is the group’s 30% held associate, United Malayan Flour (1996) Sdn Bhd (“United Malayan Flour”).

- a) **Given that the group’s profits are mainly derived from United Malayan Flour, can shareholders understand what is the level of influence and oversight of the operations in this 30% held associate?**
- b) **Does the group set or influence the strategic objectives of United Malayan Flour?**
- c) **Given the challenges and the sub-par performance of the two major subsidiaries in the recent years, would the board consider it opportune to carry out a strategic review?**

**Q3.** On 28 April 2017, in its announcement titled “Interested Person Transaction”, the company had announced that it had “entered into a Sale and Purchase Agreement (‘Agreement’) with Khong Guan Group Pte Ltd ‘KGG’ for the sale of 1,560,000 ordinary shares of HK\$1/- each in Far East Biscuit Factory (Hong Kong) Limited (‘FEB’) for HK\$4,000,000 (S\$721,000) representing 10% of the issued share capital of FEB”.

Based on the Company’s carrying value in FEB as at 31st January 2017 of S\$906,000, the sale will result in a loss of S\$185,000.

It was also disclosed that the audit committee (AC) had “reviewed the business of FEB, an investment holding company which operates biscuit factories through a subsidiary company and an associated company in China, and weighed the pros and cons of the transaction. FEB has experienced difficult business situation in recent years and is not expected to yield any return to the Company in the foreseeable future. The Audit Committee is of the opinion that the sale of 1,560,000 shares in FEB is in the best interest of the Group and is not detrimental to the interests of the minority shareholders of the Company”.

- a) **Can shareholders understand which party initiated the sale of shares in FEB and who led the negotiation for the company that determined the consideration of HK\$4,000,000?**

- b) **While the AC had reviewed the prospects of FEB and weighed the pros and cons of the transaction, on what basis did the AC determine that the sale of the FEB shares for a consideration of HK\$4,000,000 was “in the best interest of the Group and is not detrimental to the interests of the minority shareholders of the Company”?**
- c) **Should the company have included this transaction in the company’s disclosure on “Interested Person Transactions” as set out in the Corporate Governance Report (on page 20)?**

A copy of the questions for the Annual Report for the financial year ended 31 July 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Khong%20Guan%20Ltd>

The company’s response could be found here: -----