KHONG GUAN
LIMITED

Company Registration No. 196000096G

ANNUAL REPORT 2018

Contents

Corporate Information

Directors

Chew Soo Lin (Chairman)
Chew Soo Eng (Managing Director)
Tay Kwang Lip Willie (Lead Independent Director)
Chew Kian Boon Daniel
Ng Peng Teng Dr
Yeo Jih-Shian (Appointed on 01 February 2018)

Audit Committee

Tay Kwang Lip Willie (Chairman)
Ng Peng Teng Dr
Yeo Jih-Shian

Nominating Committee

Tay Kwang Lip Willie (Chairman)
Chew Soo Lin
Ng Peng Teng Dr

Remuneration Committee

Tay Kwang Lip Willie (Chairman)
Ng Peng Teng Dr
Yeo Jih-Shian

Company Secretary

Koe Eng Chuan

Registered Office

2 MacTaggart Road #03-01
Khong Guan Building
Singapore 368078
Telephone No. 62822511
Fax No. 62855868
www.khongguanlimited.com

Auditor

RT LLP
Public Accountants and
Chartered Accountants
1 Raffles Place, #17-02
One Raffles Place
Singapore 048616
Audit Partner: Ong Kian Meng
(Appointed since financial year ended
31 July 2018)

Registrar

B.A.C.S. Private Limited
8 Robinson Road #03-00
ASO Building
Singapore 048544

Bankers

Standard Chartered Bank
DBS Bank Ltd
RHB Bank Berhad

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of KHONG GUAN LIMITED will be held at its office at 2 MacTaggart Road #04-01, Khong Guan Building, Singapore 368078 on Wednesday, 28 November 2018 at 11.00 a.m. to transact the following business:

Ordinary Business

1. To adopt the audited financial statements for the financial year ended 31 July 2018 and the Independent Auditor's Report and Directors' Statement thereon. **(Resolution 1)**

2. To declare a first and final tax exempt one-tier dividend of $0.03 per ordinary share for the financial year ended 31 July 2018. **(Resolution 2)**

3. To approve the payment of Directors' fees of $73,000 (2017: $77,000) for the financial year ended 31 July 2018. **(Resolution 3)**

4. To re-elect Mr Tay Kwang Lip Willie, who retires in accordance with Article 105(c) of the Company's Articles of Association and who being eligible, offers himself for re-election as a Director of the Company. **(Resolution 4)**

   Note: Mr Willie Tay will, upon re-election, remain as the Chairman of the Audit, Remuneration and Nominating Committees.

5. To re-elect Mr Chew Kian Boon Daniel, who retires in accordance with Article 105(c) of the Company's Articles of Association and who being eligible, offers himself for re-election as a Director of the Company. **(Resolution 5)**

6. To re-elect Mr Yeo Jih-Shian, who retires in accordance with Article 110(a) of the Company's Articles of Association and who being eligible, offers himself for re-election as a Director of the Company. **(Resolution 6)**

   Note: Mr Yeo Jih-Shian will, upon re-election, remain as the member of Audit and Remuneration Committees.

7. To re-appoint RT LLP as Independent Auditor and to authorise the Directors to fix their remuneration. **(Resolution 7)**

8. To transact any other ordinary business.

Special Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions with or without any modifications:

9. Renewal of shareholders' mandate for interested person transactions **(Resolution 8)**

   "That:

   (a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of Singapore Exchange Securities Trading Limited (**"SGX-ST"**), for the renewal of the mandate (the **"Shareholders' Mandate"**) which has been amended to incorporate certain changes including the revised individual and aggregate thresholds, particulars of which are set out in the Appendix to this Notice of Annual General Meeting for the Company and its subsidiaries or any of them to enter into any of the transactions falling within the types of the interested person transactions described in the said Appendix;

   (b) the Shareholders' Mandate shall, unless revoked or varied by the Company in general meeting, continue to be in force until the next Annual General Meeting of the Company; and

(c) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to this Resolution."

10. Share Issue Mandate **(Resolution 9)**

"That pursuant to Section 161 of the Act, the Articles of Association of the Company and the Listing Manual of SGX-ST, authority be and is hereby given to the Directors of the Company to:

(a) (i) issue shares in the capital of the Company (**"shares"**) whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, **"Instruments"**) that might or would require shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution), does not exceed 50% of the issued share capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20% of the issued share capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above:

(i) the percentage of issued share capital is based on the issued share capital of the Company as at the date of the passing of this Resolution after adjusting for:

(a) new shares arising from the conversion of convertible securities or employee share options on issue when this Resolution is passed; and

(b) any subsequent consolidation or subdivision of shares; and

(ii) in relation to an Instrument, the number of shares shall be taken to be that number as would have been issued had the rights therein been fully exercised or effected on the date of the making or granting of the Instrument;

(3) in exercising the power to make or grant Instruments (including the making of any adjustments under any relevant Instrument), the Company shall comply with the provisions of the Listing

Manual of SGX-ST for the time being in force (unless such compliance has been waived by SGX-ST) and the Articles of Association for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue to be in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."

NOTICE OF BOOKS CLOSURE

NOTICE IS ALSO HEREBY GIVEN that the Transfer Book and Register of Members of the Company will be closed on 6 December 2018 for the preparation of dividend warrants. Duly completed registrable transfers received by the Company's share registrar, B.A.C.S. Private Limited, 8 Robinson Road #03-00 ASO Building, Singapore 048544, up to 5.00 p.m. on 5 December 2018 will be registered to determine members' entitlements to the proposed dividend. Members whose securities accounts with The Central Depository (Pte) Limited are credited with Shares at 5.00 p.m. on 5 December 2018 will be entitled to the proposed dividend. Payment of the dividend, if approved by shareholders at the Annual General Meeting, will be made on 18 December 2018.

By Order of the Board
Koe Eng Chuan
Company Secretary

Singapore, 12 November 2018

NOTE: A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the registered office of the Company at 2 MacTaggart Road #03-01 Khong Guan Building, Singapore 368078 (Attention: Company Secretary) not less than forty-eight hours before the time appointed for holding the meeting.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agent or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines (collectively, the **"Purposes"**), and (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agent or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Chairman's Statement

Review of Operations

During the year under review, Group revenue increased from $57,111,000 to $60,834,000 mainly due to the improved sales of our trading subsidiary dealing in the import of starches while our other trading subsidiary's revenue remained relatively stable.

Net profit after tax declined slightly from $1,487,735 to $1,242,621 due to the increase in cost of wheat grains and challenging market conditions for wheat flour.

Trading Operations

Tong Guan Food Products Sdn Bhd "**TGF**"

TGF, operating in Sabah, saw a slight decline in turnover from $32,697,000 to $32,183,000 due to reduction in the quota of subsidized cooking oil and the loss of a major agency. Sales of the other products remained relatively stable.

Being an established distributor supplying a number of popular and branded household products, TGF continues to grow its business through the addition of new agencies for popular consumer brands.

Swee Hin Chan Co Sdn Bhd "**SHC**"

SHC, operating in Penang, did well as its overall sales improved primarily due to the increase in the sale of starches and animal feed. Although there was an increase in the sales of wheat flour and other products, the profit margin from sales of wheat flour was reduced due to challenging market conditions.

Having established a strong supply network in the local market, SHC is exploring overseas export markets for potential future growth.

Manufacturing Operations

During the year, our associate, United Malayan Flour (1996) Sdn Bhd ("UMF"), which operates a wheat flour and an oats milling plant, and also manufactures a range of food products in Penang, experienced tough market conditions across its business units. The increase in the cost of raw materials and market competition both domestically and in overseas export markets adversely affected the associate's operating results.

Its oats milling subsidiary is constructing a new mill at the Halal Food Zone within the Penang Science Park to meet the increasing demand of oats products.

Short-term Investments

Although sales of short-term investments for the year of $2,725,000 was lower than that of last year's $3,789,000, the subsidiaries trading in shares continued to trade profitably. In addition, the subsidiaries continue to invest in high yield dividend stocks which contribute to our revenue.

Chairman's Statement

Redevelopment of our Heritage Building

The redevelopment of our heritage building has been completed, temporary occupation permit has been obtained and the Company has moved into the new premises. We have presently secured two tenants and will progressively lease out the remaining available space.

Dividend

A first and final tax exempt one-tier dividend of $0.03 per ordinary share for the financial year ended 31 July 2018 has been recommended by the Directors for approval by shareholders at the forthcoming Annual General Meeting.

Prospects

In spite of tough market conditions, our two trading subsidiaries are expected to improve certain aspects of their performances. SHC continues to explore new markets for imported starches to seek to achieve higher profit from increased sales. TGF, with the appointment of several new agencies would improve sales. Our flour milling associate, however, continues to face tough market conditions with higher raw material costs and market competition.

The Company expects to receive rental income from its newly completed heritage building but will incur additional depreciation and maintenance costs.

Our results are also subject to fluctuations in foreign exchange rates as the group's main operations are in Malaysia, and share market sentiments which may affect the fair value of our investments.

Acknowledgements

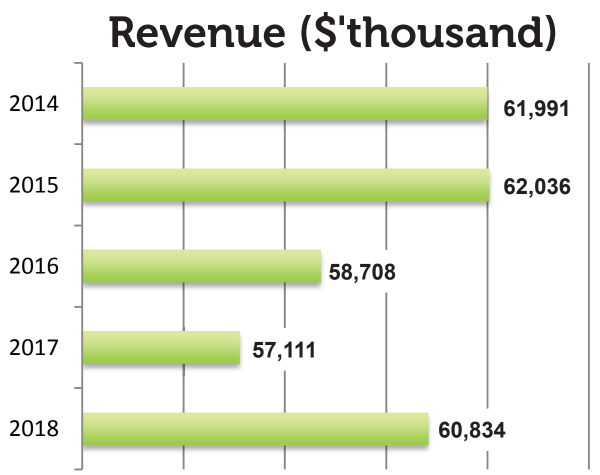
On behalf of the Board of Directors, I would like to take this opportunity to extend our deepest appreciation to our shareholders, customers and business associates for their continued support. In addition, I would like to extend our appreciation to the management and staff of the Group for their hard work and dedication throughout the year.

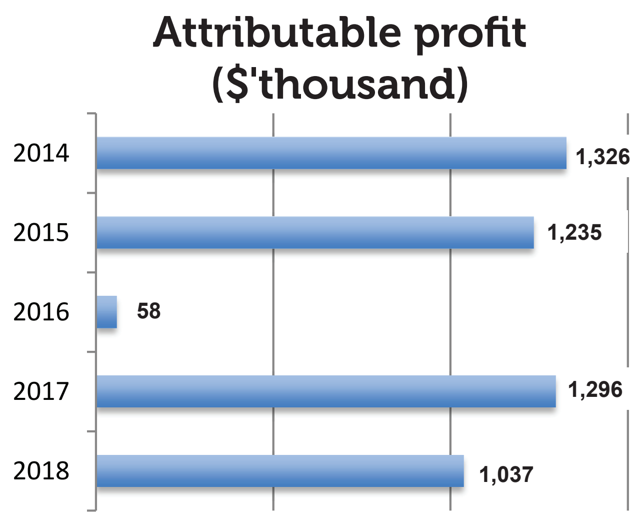
Last but not least, I would also like to thank my fellow Directors for their invaluable guidance and advice.

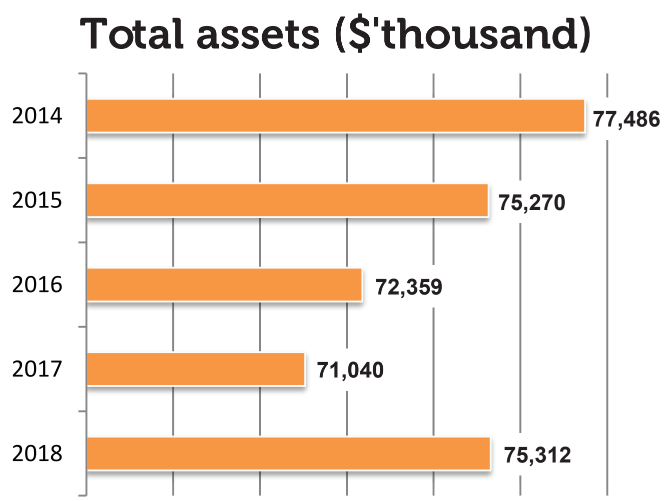
Chew Soo Lin
Chairman

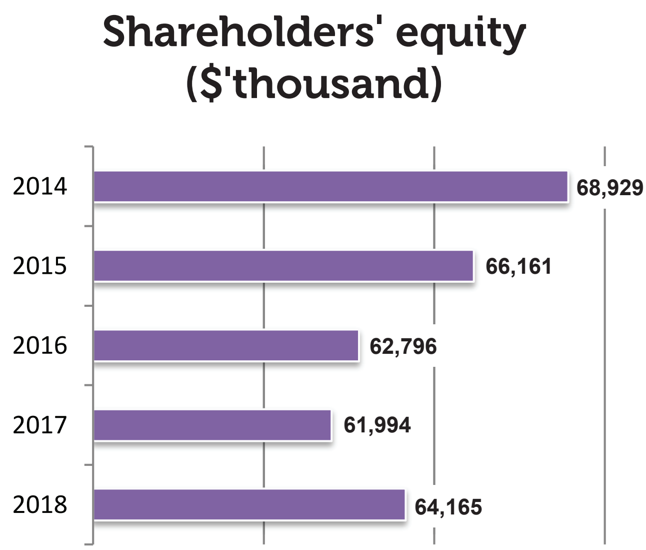
Group Financial Highlights as at 31 July 2018

	2018	2017	2016	2015	2014
($'thousand)					
Revenue	60,834	57,111	58,708	62,036	61,991
Attributable profit	1,037	1,296	58	1,235	1,326
Total assets	75,312	71,040	72,359	75,270	77,486
Shareholders' equity	64,165	61,994	62,796	66,161	68,929

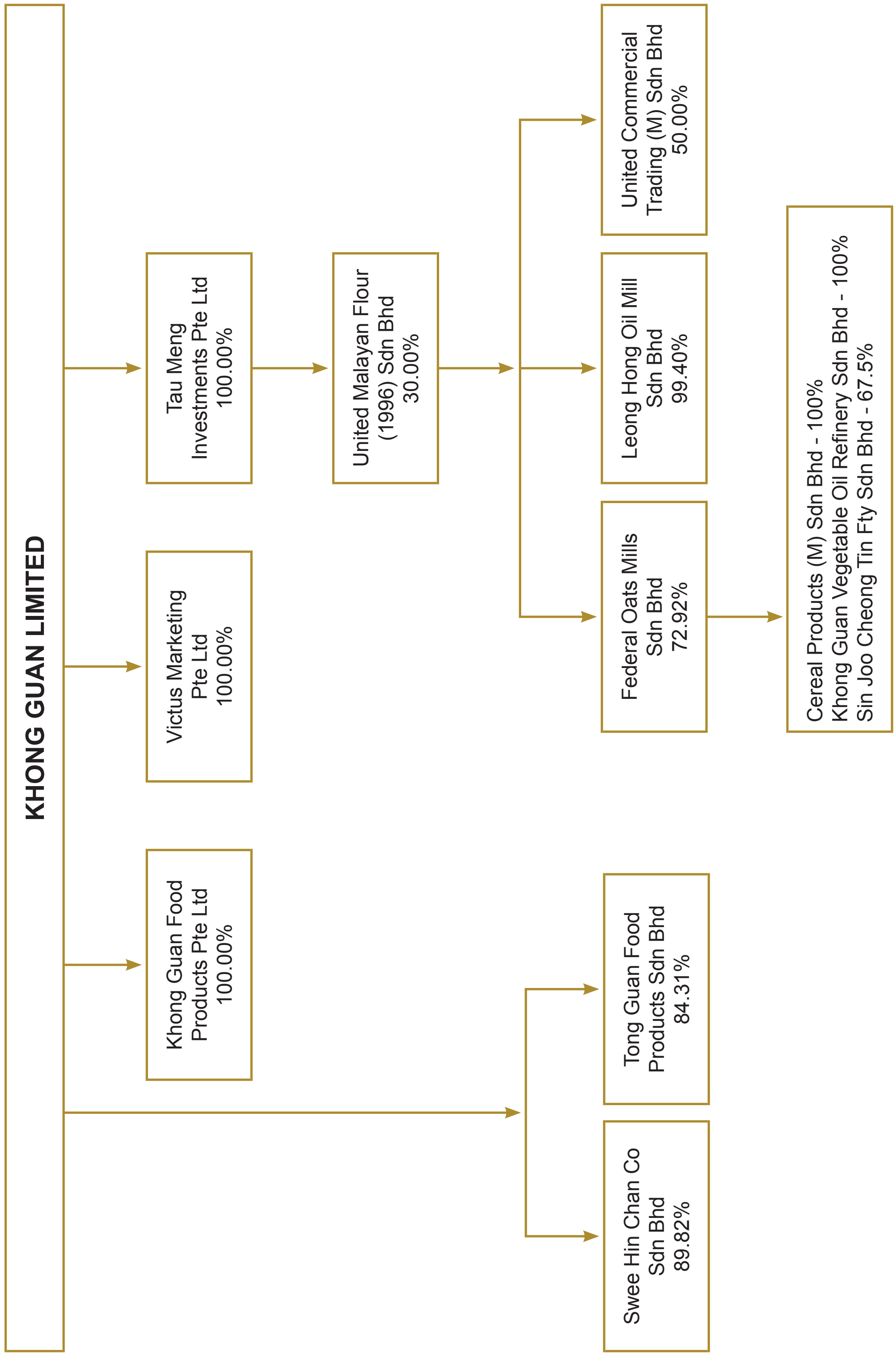








Group Structure



Corporate Governance

Khong Guan Limited (the "Company") is committed to maintaining good corporate governance in accordance with the principles and guidelines set out in the Code of Corporate Governance 2012 ("the Code").

This report outlines the main corporate governance practices during the financial year ended 31 July 2018 that were in place throughout the financial year, with specific references to each of the principles of the Code and where appropriate, we have provided explanations for deviations from the Code.

PRINCIPLE 1: THE BOARD'S CONDUCT OF ITS AFFAIRS

The principal functions of the Board of Directors of the Company (the "Board") are to provide guidance and to decide on certain important matters, including those involving the review and approval of strategic plans, direction and policies, to review the Group's performance, to review the adequacy and integrity of internal controls, and to approve material acquisitions and disposals of assets. The Board sets the values and standards for the Group to ensure that the reputation of the Group is being upheld. In setting strategic objectives, the Board has also considered environmental, social and governance (ESG) factors to ensure sustainability of the Group's business. In this regard, the Company has decided to embark on the development of its first sustainability report. The Company, together with its consultant and members from senior management across all business units, conducted a materiality assessment to identify ESG factors that are material and have significant impact on the Company's performance, business activities and stakeholders. With the identification of these material factors, the Company has progressively set up performance indicators and monitoring processes to track and address the material factors identified.

The sustainability report will be prepared in accordance with the Global Reporting Initiative (GRI) Guidelines. The Company will be issuing its inaugural sustainability report by the end of the year on its website.

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries and take decisions in the interests of the Company.

These functions are carried out by the Board and supported by three committees, namely the Audit Committee, the Nominating Committee and the Remuneration Committee, established by the Board (collectively referred to as "Board Committees"). The Board Committees operate within clearly defined terms of reference and they play an important role in ensuring good corporate governance in the Company and within the Group. The terms of reference of the Board Committees are reviewed on a regular basis to ensure their continued relevance. The Board accepts that while these Board Committees have the authority to examine specific issues which are spelt out in the Terms of Reference of the respective Board Committees and that they will report to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the Board.

Matters which are specifically reserved to the full Board for decision-making include those involving the review and approval of strategic plans, direction and policies, material acquisitions and disposals of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders.

PRINCIPLE 1: THE BOARD'S CONDUCT OF ITS AFFAIRS – *cont'd*

The number of Board and Board Committee meetings held in the financial year ended 31 July 2018 and the attendance of Directors during these meetings is as follows:

Total held in FY2018	Board 3	Audit Committee 3	Nominating Committee 1	Remuneration Committee 1
Name of Directors				
Chew Soo Lin	3	NA	1	NA
Chew Soo Eng	3	NA	NA	NA
Tay Kwang Lip Willie	3	3	1	1
Ng Peng Teng Dr	3	3	1	1
Chew Kian Boon Daniel	3	NA	NA	NA
Yeo Jih-Shian *	1	1	NA	NA
Sam Teng Choong #	2	2	NA	NA

* Mr Yeo Jih-Shian was appointed as a Director on 1 February 2018. He did not attend the full year Board and Board Committees meetings.

Mr Sam Teng Choong retired as a Director at the Company's annual general meeting on 28 November 2017. He did not attend the full year Board and Board Committees meetings.

Management briefs new Directors on the Group's business and strategic direction, as well as governance practices. All Directors are appointed to the Board by way of formal letter of appointment indicating their role, obligations, among other matters, duties and responsibilities as a member of the Board.

The Management will monitor new laws, regulations and commercial developments and will keep the Board informed accordingly. The Directors are encouraged to attend appropriate or relevant courses, conferences and seminars and receive training to improve themselves in the discharge of Directors' duties and responsibilities.

The Directors are also kept abreast of any developments which are relevant to the Group, and of any developments of relevant new laws and regulations which have an important bearing on the Group and the Directors' obligations to the Group, from time to time.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority ("ACRA"), which are relevant to the Directors are circulated to the Board. The Company Secretary also informs the Directors of upcoming conferences and seminars relevant to their roles as Directors of the Company. The external auditors would update the AC and the Board on new and revised financial reporting standards as and when they are issued.

PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE

The Company endeavours to maintain a strong and independent element on the Board. Out of six Board members, the Company has three Independent Directors.

The criteria of independence are based on the definition given in the Code. The Nominating Committee ("NC") is tasked to determine on an annual basis and as and when the circumstances require whether or not a Director is independent. For the purpose of determining Directors' independence, every Director has provided declaration of their independence which is deliberated upon by the NC and the Board.

The Board also recognizes that Independent Directors may over time develop significant insights in the Group's business and operations, and can continue to provide significant and valuable contribution objectively to the Board as a whole. Dr Ng Peng Teng has served as an Independent Director of the Company for more than nine years and the Board has rigorously reviewed his independence under the Code. Dr Ng has no association with the Management. He has objectively expressed his individual viewpoints on Board matters and presented the issues he identified to the Board. The NC and the Board have concurred that Dr Ng Peng Teng has continued to possess strong independence in character and judgement in the discharge of his responsibilities as a Director of the Company.

The Company does not have a written policy with regard to diversity of Board composition. However, it will consider the benefits of various aspects of diversity, including skills, experience, background, gender, age, ethnicity, and other relevant factors in identifying Director nominees.

Key information regarding the Directors is disclosed in the profile of Directors and Executive Officers. Together the Board has a diverse wealth of experience as well as skills and the diversity of experience, skills and competencies of the Directors enhance the effectiveness of the Board in carrying out their responsibilities.

The Board comprises the following members:

Executive Directors

Chew Soo Lin
Chew Soo Eng
Chew Kian Boon Daniel

Independent Directors

Tay Kwang Lip Willie
Ng Peng Teng Dr
Yeo Jih-Shian (appointed on 1 February 2018)
Sam Teng Choong (retired on 28 November 2017)

PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE – *cont'd*

The Board is of the view that the current Board, with independent Non-Executive Directors making up one half of the Board, provides for a strong and independent element on the Board capable of exercising objective judgement on corporate affairs of the Group. No individual or small group of individuals dominates the Board's decision-making. The Board's structure, size and composition is reviewed annually by the NC. The Board is of the view that the present size of the Board is appropriate after taking into account the scope and nature of the Group's operations.

The Independent Directors meet on a need-be basis without the presence of the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of the Executive Directors.

PRINCIPLE 3: ROLE OF CHAIRMAN AND MANAGING DIRECTOR

The Company has a separate Chairman and Managing Director. Mr Chew Soo Lin is the Executive Chairman and Mr Chew Soo Eng is the Managing Director. Both Mr Chew Soo Lin and Mr Chew Soo Eng are part of the executive management team. As all major decisions made by the Chairman and the Managing Director are reviewed by the Board and the Company has a simple organization structure, the Board is of the opinion that this arrangement does not undermine the accountability and capacity of the Board for independent decision making.

The Board is of the opinion that despite both the Chairman and the Managing Director being Executive Directors, with the composition of the Board comprising three Independent Directors, there are sufficient checks and safeguards to ensure that the process of decision making by the Board is independent and based on shared agreement without any individual exercising any significant concentration of control or authority.

The roles and responsibilities of the Chairman and the Managing Director are distinct and separate. This is to ensure appropriate balance of power and accountability in decision making. The Managing Director is the most senior executive in the Company and bears responsibility for the Company's business, while the Chairman is responsible for the leadership of the Board. The Chairman schedules Board meetings and sets Board agenda in consultation with the Managing Director. The Chairman ensures that all Board members are provided with complete, adequate and timely information.

Mr Tay Kwang Lip Willie as the Lead Independent Director, meets at least once annually with other Independent Directors without the presence of Executive Directors and after such meetings, he provides feedback to the Executive Chairman. Mr Tay Kwang Lip Willie is also available to shareholders directly, in respect of matters where they have concerns and for which, contact through the normal channels of the Executive Chairman and the Managing Director may not be appropriate or have failed to resolve.

PRINCIPLE 4: BOARD MEMBERSHIP

Nominating Committee

The Nominating Committee ("NC") comprises the following three members, two of whom are independent and non-executive.

Tay Kwang Lip Willie (Chairman)
Chew Soo Lin
Ng Peng Teng Dr

The principal functions of the NC are, among other matters, to recommend all Board and Board Committee appointments, reappointments or re-elections, to determine the independence of each Director, evaluating the performances of the Directors, to identify new Directors who have the diversity of experience and appropriate knowledge and skills to contribute effectively to the Board and reviewing Board's succession plans for Directors, particularly the Chairman and the Managing Director. Each member of the NC abstains from voting on any resolutions, making any recommendations and participating in any deliberations of the NC in respect of the assessment of his performance and re-nomination as a Director.

New Directors are at present appointed by way of a Board resolution, after the NC approves their appointment. The Company's Articles of Association provide that one-third of the Directors shall retire by rotation at each annual general meeting and if eligible, they may offer themselves for re-election.

In considering the appointment of any new Director, the NC ensures that the new Director possesses the necessary skills, knowledge and experience that could facilitate the Board in making sound and well-considered decisions. The NC will meet with the selected candidate to assess his/her suitability, before making its recommendations to the Board for the Board's approval.

The NC recommends:

Mr Tay Kwang Lip Willie – retiring by rotation, and being eligible, be nominated for re-election.
Mr Chew Kian Boon Daniel – retiring by rotation and being eligible, be nominated for re-election.
Mr Yeo Jih-Shian – retiring under the Constitution of the Company and being eligible, be nominated for re-election.

None of the Directors exceeds the maximum number of listed board representations determined by the NC and the Board, which is 6. Notwithstanding that one of the Directors has multiple Board representations, the NC is satisfied that this Director is able to carry and has been adequately carrying out his duties as a Director of the Company. The multiple directorships of this Director are disclosed in the Director's profile.

The Board does not have any alternate director.

PRINCIPLE 5: BOARD PERFORMANCE

A review of the Board's performance will be undertaken collectively by the Board as a whole. The Company believes that the Board's performance is ultimately reflected in the performance of the Group. The Board, through the delegation of its authority to the NC, ensures that the Directors appointed to the Board possess the relevant necessary background, experience, knowledge and skills so that each Director can contribute to the effectiveness of the Board with an independent and objective perspective.

The performance evaluation of an individual Director includes his contributions to the development of strategy, availability at Board meetings (as well as informal contribution via email and telephone), interactive skills, degree of preparedness, industry and business knowledge and experience which are crucial to the Group's business.

The NC Chairman, in conjunction with the Chairman of the Board, conducts an annual assessment of the effectiveness of the Board as a whole, effectiveness of its Board Committees and the contribution by each individual Director and its Chairman. The assessment comprises self-assessment, Board assessment and peer evaluations.

The Company believes that apart from the Directors' fiduciary duties (i.e. acting in good faith, with due diligence and care, and in the best interests of the Company and its shareholders), the Board's key responsibilities are to set strategic directions and to ensure that the long-term objective of enhancing shareholders' wealth is achieved.

PRINCIPLE 6: ACCESS TO INFORMATION

In order to ensure that the Board is able to fulfil its responsibilities, Management provides the Board members with timely half-yearly management financial statements, half-yearly interested parties transactions report and explanation on material variances to enable them to oversee the Group's operational and financial performance. Directors are also informed on a regular basis as and when there are any significant developments or events relating to the Group's business operations.

Management staff and the Company's auditor, who can provide insight into the matters for discussion, are also invited from time to time to attend such meetings. The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary, together with other management staff of the Company, also ensures that the Company complies with the applicable statutory and regulatory rules.

The Directors have separate and independent access to the Company's senior management and the Company Secretary at all times. Should the Directors, whether as a group or individually, need independent professional advice, the Company will appoint a professional advisor selected by the group or individual, and approved by the Chairman and the Managing Director, to render the advice. The cost of such independent professional advice will be borne by the Company.

The appointment and the removal of the Company Secretary are subject to the approval of the Board.

PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATI0N POLICIES
PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION
PRINCIPLE 9: DISCLOSURE ON REMUNERATION

Remuneration Committee

The Remuneration Committee ("RC") comprises the following three members who are independent and non-executive.

Tay Kwang Lip Willie (Chairman)
Yeo Jih-Shian (appointed on 1 February 2018)
Ng Peng Teng Dr
Sam Teng Choong (retired on 28 November 2017)

During the financial year ended 31 July 2018, the RC underwent a reconstitution pursuant to Mr Sam Teng Choong's retirement as an Independent Director on 28 November 2017 and on Mr Yeo Jih-Shian's appointment as an Independent Director on 1 February 2018 and as a member of the RC on the same date.

The terms of reference for the RC include reviewing and approving the existing benefits and remuneration of Executive Directors and senior executives and recommending the fees of Non-Executive Directors.

The RC reviews the Company's obligations arising in the event of termination of the Executive Directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

The RC in establishing the framework of remuneration policies endorsed by the Board for its Executive Directors and senior executives aims to be fair, linking rewards to corporate and individual performance.

The Group sets remuneration packages which are competitive and in line with the market and sufficient to attract, retain and motivate senior management with adequate experience and expertise to manage the business and operations of the Group.

The RC presently adopts a remuneration policy of fixed and variable components. The fixed component is in the form of a basic salary and the variable component is in the form of a bonus which is linked to the performance of the Group. No Director is involved in deciding his own remuneration.

The Company has no share-based compensation scheme or any long-term scheme involving the offer of shares or options in place.

Having reviewed and considered the variable to components of the Executive Directors and the key management personnel, which are moderate, the RC is of the view that there is no requirement to institute contractual provisions to allow the Company to reclaim incentive components of their remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss.

The Board has also recommended a fixed fee for Non-Executive Directors, which is appropriate and not excessive, taking into account the effort, time spent and responsibilities of each Non-Executive Director. The fees of Non-Executive Directors are subject to shareholders' approval at the Annual General Meeting.

Remuneration Committee – *cont'd*

Mr Chew Kian Hong Michael, an immediate family member of the Managing Director, had received remuneration in the band between $100,001 and $150,000 during the financial year.

The remuneration components paid to each of the Group's key Executive Directors and Non-Executive Directors for the year ended 31 July 2018 are set out below:

Name of Director	Salary $	Bonus and Benefits $	Fees $	Total $
Chew Soo Lin	254,000	77,000	–	331,000
Chew Soo Eng	376,000	120,000	–	496,000
Chew Kian Boon Daniel	142,000	39,000	–	181,000
Tay Kwang Lip Willie	–	–	40,000	40,000
Ng Peng Teng Dr	–	–	18,000	18,000
Yeo Jih- Shian	–	–	9,000	9,000
Sam Teng Choong	–	–	6,000	6,000

Note : Mr Chew Kian Boon Daniel is the son of Mr Chew Soo Eng and nephew of Mr Chew Soo Lin.

Key Senior Management Remuneration

Mr Chew Soo Lin, Mr Chew Soo Eng and Mr Chew Kian Boon Daniel who are Executive Directors of the Company are the only key management of the Group. The other management staff for the Group (who are not Directors) received remuneration for the financial year ended 31 July 2018 within the band of $250,000 and below.

PRINCIPLE 10: ACCOUNTABILITY

The Board is accountable to the shareholders for providing them with a balanced and understandable assessment of the Group's financial results, financial position and prospects through announcements. The Management has provided the Board on a regular basis and as and when required with management accounts which present a balanced and understandable assessment of the Group's performance, position and prospects.

The Board has also taken steps to ensure compliance with legislative and regulatory requirements. In line with the requirements under the rules of the SGX-ST, the Board provides a negative assurance statement to the shareholders in respect of the half yearly financial statements. For the financial year under review, the Chairman and Managing Director have provided assurance to the Board on the integrity of the Group's financial statements and the effectiveness of the Group's risk management and internal controls.

PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets. The Board should also determine the nature and extent of the significant risks which it is willing to take in achieving its strategic objectives.

PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS – *cont'd*

The Group adopts a decentralized approach to risk management, whereby the individual head of business units takes ownership and accountability for risks at their respective levels. The individual business units through a risk monitor, updates the Board on their operational, financial and compliance risks management.

The Group operates within a low overall risk range. The Group's lowest risk appetite relates to safety and compliance objectives including health, safety and financial reporting with almost zero risk tolerance and marginally higher risk appetite towards its strategic and operational objectives with low to medium risk tolerance.

The AC has assumed a risk oversight role in assessing the risk management as part of the Group's efforts to strengthen its risk management processes and framework and overseeing the formulation, update and maintenance of an adequate and effective risk management and internal control systems.

Risk assessment and evaluation have become an essential part of the business planning and monitoring process. The Group has put in place risk monitors on its risk profile which summarizes the material risks faced by the Group and the countermeasures in place to manage or mitigate those risks for review by the AC and the Board annually.

The internal audit team performs risk assessment and conducts the review of the effectiveness of the Group's internal controls, including financial, operational and compliance controls and risk management systems in accordance with COSO Framework for internal audit works. The internal auditors have unrestricted access to the AC on internal audit matters. The AC reviews and endorses the internal audit plan and internal audit reports of the Group. Any material non-compliance or failures in the internal audit function and recommendations for improvement are reported to the AC.

PRINCIPLE 12: AUDIT COMMITTEE

The Audit Committee ('AC') comprises the following members:

Tay Kwang Lip Willie (Chairman)
Sam Teng Choong (retired on 28 November 2017)
Ng Peng Teng Dr
Yeo Jih-Shian (appointed on 1 February 2018)

During the financial year ended 31 July 2018, the AC underwent a reconstitution pursuant to Mr Sam Teng Choong's retirement as an Independent Director on 28 November 2017 and Mr Yeo Jih-Shian's appointment as an Independent Director on 1 February 2018 and a member of the AC on the same date.

All members of the AC are independent and non-executive. The AC is able to exercise objective judgement independent from Management and no individual or small group of individuals will dominate the decisions of the Board. The Board is satisfied that all members of the AC are appropriately qualified to discharge their responsibilities.

The principal functions of the AC, among other matters, are:

- to review the half-yearly and full year financial statements to be issued by the Group with management and, where appropriate, with the Company's external auditor, before their submission to the Board;

- to review the scope and results of the audit and its cost-effectiveness and the independence and objectivity of the external auditor;

- to review the effectiveness of the internal audit function;

PRINCIPLE 12: AUDIT COMMITTEE – *cont'd*

- to provide oversight on Group's risk management;
- to make recommendations to the Board on the appointment, re-appointment and/or removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor;
- to review interested person transactions.

The number of meetings convened by the AC is set out in Principle 1: The Board's Conduct of its Affairs.

The Board and the AC are satisfied that the appointments of different auditors for the Group's overseas subsidiaries and associates would not compromise the standard and effectiveness of the Group's audit.

To create an environment for open discussion on audit matters, the AC meets with the external and internal auditors, without the presence of the Management, at least once a year.

Minutes of the AC meeting are given to the Board members for their information and review.

The AC assesses the external auditor based on factors such as the performance and quality of their audit and the independence of the auditor, and recommends their appointment to the Board.

The Group has complied with Rules 712 and 715 of the Listing Manual issued by SGX in relation to its auditors.

The aggregate amount of fees paid/payable to the external auditor of the Company and subsidiaries for audit services was $49,021. There were no material non-audit services provided by the external auditors for the financial year ended 31 July 2018.

The AC has in place a whistle–blowing policy where the staff of the Group and third parties may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with the objective of ensuring that arrangements are in place for the independent investigation of such matters for appropriate follow–up actions. The AC has explicit authority to conduct investigations into any matters within its terms of reference, including having full access to and co-operation of the Management, has full discretion to invite any Director or executive officer to attend its meetings, and has been given reasonable resources to enable it to discharge its functions.

No former partner or director of the Company's existing auditing firm or audit corporation is a member of the AC.

Financial Matters

In the review of the financial statements, the AC has discussed with management the accounting principles that were applied and their judgement of items that might affect the integrity of the financial statements. The following significant matters impacting the financial statements were discussed with Management and the external auditor and were reviewed by the AC:

PRINCIPLE 12: AUDIT COMMITTEE – *cont'd*

Significant matters	How the AC reviewed these matters and what decisions were made
Recoverability of receivables and reasonableness of allowance for impairment	Management has taken into consideration whether the account is active, the payment history and subsequent payments in assessing whether allowance for impairment is required. The AC considered this approach and methodology adopted by management reasonable and appropriate. The impairment review was also an area of focus of the external auditor who has included this item as a key audit matter in its audit report for the financial year ended 31 July 2018.

PRINCIPLE 13: INTERNAL AUDIT ('IA')

The Board recognizes the importance of good corporate governance practices and a sound system of internal controls in safeguarding shareholders' investment as well as the Group's assets. With the assistance of the external and internal auditors, the AC conducts annual review of their reports on the system of internal controls to satisfy itself that the Group's internal controls are adequate.

The AC approves the hiring, removal, evaluation and compensation of the internal auditors. The IA reports primarily to the Chairman of the AC and has unrestricted access to the documents, records, properties and personnel of the Company and of the Group.

The Group's internal audit function in respect of the Malaysian operations has been outsourced to SMS Risk Management Sdn Bhd, an experienced and qualified professional risk management company in Malaysia. This outfit is helmed by a qualified member of Malaysia Institute of Certified Public Accountants and adequately staffed.

The Board with the concurrence of the AC is of the opinion that the system of the Company's internal controls, addressing financial, operational and compliance controls, and risk management systems are adequate and effective in meeting the current needs of the Group's business operations.

As there are inherent limitations in any system of internal controls, this system is designed to manage rather than eliminate risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

PRINCIPLE 14: SHAREHOLDERS RIGHTS
PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS

The Company does not practise selective disclosure. The Company ensures an adequate and timely disclosure of all material information to the shareholders. The Company communicates with its shareholders through the Annual Report, Annual General Meeting, Circulars to Shareholders and announcements through SGXNET. The Company ensures that price-sensitive information is publicly released, and is announced on an immediate basis where required under the Listing Manual of the SGX-ST. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the public have fair access to the information.

The Company allows corporations which provide nominee or custodial services to appoint more than two proxies to attend the general meetings.

PRINCIPLE 14: SHAREHOLDERS RIGHTS – *cont'd*
PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS – *cont'd*

Shareholders are given the opportunity to participate effectively and vote at the general meetings of shareholders and separate resolutions are also voted on each substantially separate issue.

The Group does not have a fixed dividend policy at present. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

PRINCIPLE 16: CONDUCT OF SHAREHOLDERS' MEETINGS

At general meetings of the Company, shareholders are given the opportunity to communicate their views and ask the Directors and Management questions regarding matters affecting the Company. There are separate resolutions at the general meetings for each distinct issue. The external auditor and Senior Management are available at the Annual General Meeting to respond to, and to assist the Directors in responding to shareholders' questions.

In accordance with the Articles of Association of the Company, each shareholder may appoint not more than two proxies to attend and vote on their behalf. A proxy need not be a member of the Company.

The Company acknowledges that voting by poll in all its general meetings is integral in the enhancement of corporate governance. The Company adheres to the requirements of the Listing Manual of the SGX-ST and the Code. All resolutions at the Company's general meetings are put to vote by poll. The detailed results of each resolution are announced via SGXNET after the general meetings.

ADDITIONAL INFORMATION
Interested Person Transactions ("IPT")
(Listing Manual Rule 907)

The Company has established a procedure for recording and reporting interested person transactions which are to be transacted on normal commercial terms and reviewed by the Audit Committee. Details of significant interested person transactions for the financial year ended 31 July 2018 are set out below:

Name of Interested Person	Aggregate value of all IPT during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPT conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
	$	$
Purchases from		
Chung Ying Confectionery & Food Products Sdn Bhd	—	2,421,000
Federal Oats Mills Sdn Bhd	—	205,000
Khong Guan Biscuit Factory (Borneo) Sdn Bhd	—	4,631,000
Leong Hong Oil Mill Sdn Bhd	—	1,379,000
United Malayan Flour (1996) Sdn Bhd	—	12,990,000
Sales to		
Cereal Products (M) Sdn Bhd	188,000	—
Khian Guan Biscuit Manufacturing Co Sdn Bhd	—	734,000
Khong Guan Biscuit Factory (Johore) Sdn Bhd	—	326,000
Poh Seng Trading (Ipoh) Sdn Bhd	—	1,392,000
Soon Guan Co Sdn Bhd	—	108,000
Sunshine Traders Sdn Bhd	—	720,000

MATERIAL CONTRACTS

Except as disclosed in Note 31 (Related Party Disclosures) of the Notes to the Financial Statements, there were no material contracts of the Company and its subsidiaries involving the interests of any Director or controlling shareholders, subsisting at or entered into since the end of the last financial year.

Dealing In Securities

(Listing Manual Rule 1207(19))

Directors and employees have been advised not to deal in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information. They are required to report their dealings in the shares of the Company and are advised from time to time not to deal in the Company's shares during certain periods of the year.

Notifications, in accordance with the SGX Rule 1207(19), are issued to all the directors and employees annually not to deal in the securities of the Company during the period of one month immediately before the announcement of the Company's half year and full year financial statements.

Profile of Directors and Key Executives

DIRECTORS

Chew Soo Lin

Mr Chew, who is an Executive Director, was appointed Chairman in August 2007.

He is also a member of the Nominating Committee.

Mr Chew qualified as a Chartered Accountant in November 1971 and worked for international accounting firms till 1978. He then joined the Khong Guan Group of Companies, assuming responsibilities in general and financial management and was subsequently appointed director of several companies in the Group.

Mr Chew is an Independent Director of China Real Estate Grp Ltd, Duty Free International Limited and MTQ Corporation Limited.

Chew Soo Eng

Mr Chew, who is an Executive Director, was appointed Managing Director in January 2007.

Mr Chew graduated with a degree of Bachelor of Commerce (Accounting) from University of Western Australia in 1969. Currently Mr Chew is in charge of the Group's overall business operations. He is also Director of several companies within the Khong Guan Group of Companies and the Managing Director of United Malayan Flour (1996) Sdn Bhd, an associated company.

Tay Kwang Lip Willie

Mr Willie Tay was appointed as a Non-Executive and Independent Director in January 2014.

He is the Lead Independent Director and Chairman of the Audit, Remuneration and Nominating Committees.

Before his retirement at the end of 2015, he was the Managing Director of a certified public accounting corporation and was responsible for the running, managing and developing the assurance, advisory and consultancy business of the corporation.

Mr Tay is a Member of the Institute of Singapore Chartered Accountants, Singapore Institute of Directors and CPA Australia.

Ng Peng Teng Dr

Dr Ng was appointed as a Non-Executive and Independent Director in July 2003.

He is a member of the Audit, Remuneration and Nominating Committees.

Dr Ng is a member of the Institute of Electrical and Electronic Engineers, USA. He graduated with a degree of Bachelor of Science in Electrical Engineering and is a Doctor of Philosophy in Systems Science and Engineering conferred by the Massachusetts Institute of Technology, U.S.A. Dr Ng previously held engineering positions at RCA, GTE and IBM.

Profile of Directors and Key Executives

Chew Kian Boon Daniel

Mr Daniel Chew was appointed as an Executive Director in February 2016.

Mr Daniel Chew has more than 20 years of experience in flour milling operations. His present assignment includes group's procurement of raw materials, shipping freights and logistics for production planning. He currently also holds a senior managerial position in United Malayan Flour (1996) Sdn Bhd.

Mr Chew graduated with a business studies degree from University of Hull, UK in 1998.

Yeo Jih-Shian

Mr Yeo was appointed as a Non-Executive and Independent Director in February 2018. He is a member of the Audit and Remuneration Committees.

Mr Yeo has more than 20 years of experience as a lawyer qualified in New York and Singapore and has been named as a Leading Lawyer by Chambers Global and IFLR. He was previously a Principal at the Singapore member office of a global law firm and led on many international capital markets transactions in the Asia Pacific region. Mr Yeo graduated in 1992 from the University of Oxford.

Mr Yeo also serves on the board of HCSA Community Services, a charity with Institute of Public Character status.

KEY MANAGEMENT EXECUTIVES

Chew Soo Lin

Please refer to Directors' profile.

Chew Soo Eng

Please refer to Directors' profile.

Chew Kian Boon Daniel

Please refer to Directors' profile.

Directors' Statement for the financial year ended 31 July 2018

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of Khong Guan Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 July 2018 and the statement of financial position of the company as at 31 July 2018.

OPINION OF THE DIRECTORS

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2018 and of the financial performance, changes in equity and cash flows of the Group for the year ended on that date; and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

DIRECTORS

The directors of the Company in office at the date of this statement are:

Chew Soo Lin
Chew Soo Eng
Tay Kwang Lip Willie
Ng Peng Teng Dr
Chew Kian Boon Daniel
Yeo Jih-Shian (Appointed on 01 February 2018)

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' INTEREST IN SHARES AND DEBENTURES

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in the shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

DIRECTORS' INTEREST IN SHARES AND DEBENTURES – *cont’d*

	Direct interest		Deemed interest	
	At the beginning of financial year or date of appointment if later	At the end of financial year	At the beginning of financial year or date of appointment if later	At the end of financial year
Khong Guan Limited				
Chew Soo Lin	6,000	6,000	—	—
Chew Soo Eng	201,666	201,666	19,200	19,200
Ng Peng Teng Dr	200,000	200,000	—	—
Chew Kian Boon Daniel	2,000	2,000	—	—
<u>Subsidiary</u>				
Tong Guan Food Products Sdn. Bhd.				
Chew Soo Lin	4,000	4,000	—	—
Chew Soo Eng	4,000	4,000	—	—
Chew Kian Boon Daniel	34,248	34,248	—	—

None of the other directors had interest in the shares of the Company or its related corporations.

No debentures have been issued by the Company.

There were no changes in any of the above-mentioned interests in the Company between the end of the financial year and 21 August 2018.

OPTIONS

During the financial year, no share options were granted to subscribe for unissued shares of the Company or corporations in the Group.

During the financial year, there were no shares issued by virtue of the exercise of options granted to take up unissued shares of the Company or corporations in the Group.

At the end of the financial year, there were no unissued shares of the Company or corporations in the Group under option.

AUDIT COMMITTEE

The audit committee (“AC”) carried out its functions in accordance with section 201B (5) of the Singapore Companies Act, Chapter 50, including the following:

- Reviewed the audit plans of the external and internal auditors of the Group and reviewed the internal auditor’s evaluation of the adequacy of the system of internal accounting controls and the assistance given by the Group and the Company’s management to external and internal auditors

AUDIT COMMITTEE – *cont'd*

- Reviewed the half yearly and annual financial statements and the auditor's report on the annual financial statements of the Group and the Company before their submission to the Board of Directors
- Reviewed effectiveness of the Group's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditor
- Met with the external auditor, other committees and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC
- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators
- Reviewed the cost effectiveness and the independence and objectivity of the external auditor
- Reviewed the nature and extent of non-audit services provided by the external auditor
- Recommended to the Board of Directors the external auditor to be nominated, approved the compensation of the external auditor and reviewed the scope and results of the audit
- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual

The AC, having reviewed all non-audit services provided by the external auditor to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditor. The AC has also conducted a review of interested person transactions.

The AC convened three meetings during the year with full attendance from all members. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

AUDITOR

The independent auditor, RT LLP, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

Chew Soo Lin
Director

Chew Soo Eng
Director

Singapore, 25 October 2018

Independent Auditor's Report To The Members Of Khong Guan Limited For The Financial Year Ended 31 July 2018

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Khong Guan Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 July 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 July 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the financial year then ended. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters – *cont'd*

Key audit matter	How the matter was addressed in the audit
Recoverability of receivables and reasonableness of allowance for impairment The Group has trade receivables amounting to \$11,719,623 (2017: \$10,556,960). Allowance on impairment of receivables made were \$511,299 (2017: \$442,507). Details of the trade receivables are disclosed in Note 11. At the end of each respective period, management will assess whether there is any objective evidence that the recoverability of a receivable is doubtful. Out of the total trade receivables, aging of trade receivables that are past due but not impaired amounted to \$3,107,898 (2017: \$2,059,121), of which \$550,563 (2017:\$126,414) has aged over 90 days. In determining the recoverability of trade receivables that are past due but not impaired, management has to use significant judgement and estimation in their assessment on recoverability of these past due trade receivables. The key assumptions in management assessment of the recoverability of these trade receivables that are past due but not impaired are detailed in Note 2.4(b)(iii) to the financial statements.	Our audit procedures focused on evaluating management's impairment assessment of those receivables that are past due but not impaired. Our procedures included but were not limited to the following: • Assessed management's assessment based on aging analysis of outstanding debtors, payment history of those debtors through past repayments and enquiring with management of any disputes. We noted that management has made allowance for impairment for debtors which are long outstanding, where letters of demand were issued, and where there are no subsequent receipts from the debtors. We noted that management does not make any allowance for receivables in which the Group has current business transactions with and that the debtors have made continuous payments. • Reviewed the component auditor's audit working papers on work done on trade receivables and their assessment on the impairment of trade receivables and noted no material exceptions.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information listed below that is included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Corporate Information;
Chairman's Statement;
Group Financial Highlights;
Group Structure;
Corporate Governance;
Profile of Directors and Key Executives; and
Directors' Statement

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements - *cont'd*

As part of an audit in accordance with SSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the financial year then ended and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report To The Members Of Khong Guan Limited For The Financial Year Ended 31 July 2018

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Ong Kian Meng.

RT LLP
Public Accountants and
Chartered Accountants

Singapore, 25 October 2018

Statements of Financial Position as at 31 July 2018

	Note	GROUP 2018 $	GROUP 2017 $	COMPANY 2018 $	COMPANY 2017 $
ASSETS AND LIABILITIES					
Non-Current Assets					
Property, plant and equipment	3	3,261,470	3,294,726	269,162	342,071
Prepaid lease	4	1,519,205	1,485,290	—	—
Investment property	5	13,446,604	9,467,616	13,446,604	9,467,616
Investments in subsidiaries	6	—	—	18,287,368	18,287,368
Investments in associates	7	19,700,322	18,321,866	—	—
Long-term investment	8	23,799	22,493	—	—
		37,951,400	32,591,991	32,003,134	28,097,055
Current Assets					
Inventories	9	7,683,533	6,872,336	7,500	—
Short-term investments	10	5,424,302	5,836,318	—	—
Trade receivables	11	11,208,324	10,114,453	317,580	480,303
Other receivables	12	783,332	570,144	350,352	228,277
Tax recoverable		395,543	332,739	—	—
Amounts owing by subsidiaries	13	—	—	3,542,300	5,415,299
Fixed deposits	14	4,200,542	9,352,045	4,133,149	9,282,195
Cash and bank balances	15	7,665,345	5,370,148	3,015,977	894,458
		37,360,921	38,448,183	11,366,858	16,300,532
Less: Current Liabilities					
Trade payables	16	6,021,313	4,533,892	328,479	268,687
Other payables	17	1,830,641	1,425,225	1,332,093	981,694
		7,851,954	5,959,117	1,660,572	1,250,381
Net Current Assets		29,508,967	32,489,066	9,706,286	15,050,151
Less: Non-Current Liabilities					
Provision for retirement benefits	19	259,068	237,538	259,068	237,538
Deferred tax liabilities	20	403,427	487,919	—	—
		662,495	725,457	259,068	237,538
Net Assets		66,797,872	64,355,600	41,450,352	42,909,668
EQUITY					
Share capital	21	33,278,673	33,278,673	33,278,673	33,278,673
Capital reserve	22	145,710	190,379	—	—
Foreign currency translation reserves	23	(8,523,108)	(10,475,817)	—	—
Retained profits		39,263,790	39,000,909	8,171,679	9,630,995
Attributable to equity holders of the Company		64,165,065	61,994,144	41,450,352	42,909,668
Non-controlling interests		2,632,807	2,361,456	—	—
Total Equity		66,797,872	64,355,600	41,450,352	42,909,668

The accompanying notes form an integral part of these financial statements.

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income For The Financial Year Ended 31 July 2018

	Note	2018 $	2017 $
Revenue	24	60,833,988	57,111,019
Other income	25	489,968	263,696
Changes in short-term investments		(412,016)	(1,429,122)
Changes in inventories		407,098	662,500
Purchases of short-term investments		(1,644,022)	(1,574,256)
Purchases of inventories		(52,452,751)	(47,757,922)
Employee benefits expense		(3,949,547)	(3,844,438)
Depreciation and amortisation expenses			
- property, plant and equipment	3	(478,003)	(454,959)
- prepaid lease	4	(51,713)	(49,458)
Finance costs	26	—	(284)
Share of results of associates, net of tax	7	891,513	1,839,338
Other expenses		(1,959,281)	(2,796,435)
Profit before tax	26	1,675,234	1,969,679
Income tax expense	27	(432,613)	(481,944)
Profit for the financial year		1,242,621	1,487,735
Profit for the financial year attributable to:			
Equity holders of the Company		1,037,257	1,296,375
Non-controlling interests		205,364	191,360
		1,242,621	1,487,735
Earnings per share for profit attributable to equity holders of the Company (in cents)			
Basic and diluted	28	4.02	5.02

The accompanying notes form an integral part of these financial statements.

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income For The Financial Year Ended 31 July 2018

	Note	2018 $	2017 $
Profit for the financial year		1,242,621	1,487,735
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Share of associate's capital reserve	22	(44,669)	49,589
Translation differences relating to financial statements of foreign operations		2,091,506	(1,471,575)
Other comprehensive income, net of tax		2,046,837	(1,421,986)
Total comprehensive income for the financial year		3,289,458	65,749
Total comprehensive income attributable to:			
Equity holders of the Company		2,945,297	(27,470)
Non-controlling interests		344,161	93,219
		3,289,458	65,749

The accompanying notes form an integral part of these financial statements.

Consolidated Statement Of Changes In Equity
For The Financial Year Ended 31 July 2018

	Note	Share capital $	Capital reserve $	Foreign currency translation reserves $	Retained profits $	Total attributable to equity holders of the Company $	Non-controlling interests $	Total equity $
At 1 August 2016		33,278,673	140,790	(9,102,383)	38,478,910	62,795,990	2,339,398	65,135,388
Profit for the financial year		—	—	—	1,296,375	1,296,375	191,360	1,487,735
Other comprehensive income for the financial year		—	49,589	(1,373,434)	—	(1,323,845)	(98,141)	(1,421,986)
Total comprehensive income for the financial year		—	49,589	(1,373,434)	1,296,375	(27,470)	93,219	65,749
Dividends paid by								
- the Company	29	—	—	—	(774,376)	(774,376)	—	(774,376)
- subsidiaries to non-controlling interests		—	—	—	—	—	(71,161)	(71,161)
At 31 July 2017		33,278,673	190,379	(10,475,817)	39,000,909	61,994,144	2,361,456	64,355,600
Profit for the financial year		—	—	—	1,037,257	1,037,257	205,364	1,242,621
Other comprehensive income for the financial year		—	(44,669)	1,952,709	—	1,908,040	138,797	2,046,837
Total comprehensive income for the financial year		—	(44,669)	1,952,709	1,037,257	2,945,297	344,161	3,289,458
Dividends paid by								
- the Company	29	—	—	—	(774,376)	(774,376)	—	(774,376)
- subsidiaries to non-controlling interests		—	—	—	—	—	(72,810)	(72,810)
At 31 July 2018		33,278,673	145,710	(8,523,108)	39,263,790	64,165,065	2,632,807	66,797,872

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows
For The Financial Year Ended 31 July 2018

	2018 $	2017 $
Cash flows from operating activities:		
Profit before tax	1,675,234	1,969,679
Adjustments for non-cash and other items:		
Allowance for doubtful trade receivables	53,477	441,338
Depreciation and amortisation expenses	529,716	504,417
Fair value gain on short-term investments	(258,956)	(286,501)
Loss on disposal of a subsidiary's associate	—	41,245
Loss on disposal of long-term unquoted investment	—	184,816
Gain on disposal of a sub-subsidiary	—	(198)
Gain on disposal of property, plant and equipment	(9,018)	(2,093)
Interest expense	—	284
Interest income	(140,311)	(134,161)
Provision for retirement benefits	21,530	20,432
Reversal of allowance for doubtful trade receivables	—	(606)
Share of results of associates, net of tax	(891,513)	(1,839,338)
	(695,075)	(1,070,365)
Operating profit before working capital changes	980,159	899,314
Decrease in short-term investments	670,972	1,715,623
Increase in inventories	(407,098)	(662,500)
(Increase)/Decrease in trade and other receivables	(821,716)	30,602
Increase/(Decrease) in trade and other payables	1,607,971	(228,629)
	1,050,129	855,096
Cash generated from operations	2,030,288	1,754,410
Income tax paid	(522,261)	(504,635)
Interest paid	—	(284)
Interest received	140,311	134,161
Payment of retirement benefits	—	(90,117)
	(381,950)	(460,875)
Net cash generated from operating activities	1,648,338	1,293,535
Cash flows from investing activities:		
Purchases of property, plant and equipment	(319,373)	(172,470)
Addition to investment property	(3,978,988)	(4,356,294)
Proceeds from disposal of property, plant and equipment	9,018	2,093
Proceeds from disposal of long-term unquoted investment	—	720,800
Proceeds from disposal of a subsidiary's associate	—	114,506
Dividends received from associates	527,515	536,424
Net cash used in investing activities	(3,761,828)	(3,154,941)
	(2,113,490)	(1,861,406)

Consolidated Statement of Cash Flows
For The Financial Year Ended 31 July 2018

	2018 $	2017 $
Cash flows from financing activities:		
Dividend paid by the Company	(774,376)	(774,376)
Dividends paid by subsidiaries to non-controlling interests	(72,810)	(71,161)
Net cash used in financing activities	(847,186)	(845,537)
Net decrease in cash and cash equivalents	(2,960,676)	(2,706,943)
Cash and cash equivalents at beginning of the financial year	14,722,193	17,489,846
Effects of currency translations on cash and cash equivalents	104,370	(60,710)
Cash and cash equivalents at end of the financial year (Note 30)	11,865,887	14,722,193

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements for the financial year ended 31 July 2018

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

The Company is a limited liability company listed on the Singapore Exchange Securities Trading Limited. It is incorporated and domiciled in the Republic of Singapore with the registered office and principal place of business at 2 MacTaggart Road #03-01 Khong Guan Building, Singapore 368078.

The principal activities of the Company are the trading of wheat flour and other edible products and investment holding.

The principal activities of the subsidiaries are set out in Note 6.

The consolidated financial statements of the Group and the statement of financial position of the Company were authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates, assumptions and judgements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.4.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and revised standards which are effective for the Group's financial year beginning 1 August 2017, including the Amendments to FRS 7 *Disclosure Initiative*. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

2.3 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) [SFRS(I)s]. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I)s with effect from annual periods beginning on or after 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.3 FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS – *cont'd*

The Group's financial statements for the financial year ending 31 July 2019 will be prepared in accordance with SFRS(I)s, and International Financial Reporting Standards issued by the International Accounting Standards Board. As a result, this will be the last set of financial statements prepared under the current FRSs.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International).*

In addition to the adoption of the new framework, the Group will also concurrently apply the following SFRS(I)s and interpretations of SFRS(I)s [SFRS(I)s INT] which are relevant to the Group:

<u>Effective for the financial year of the Group beginning on 1 August 2018</u>
- SFRS(I) 9 *Financial Instruments*
- SFRS(I) 15 *Revenue from Contracts with Customers*
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to SFRS(I) 1: *First-time Adoption of Singapore Financial Reporting Standards (International)*
- Amendments to SFRS(I) 1-40: *Transfers of Investment Property*

<u>Effective for the financial year of the Group beginning on 1 August 2019</u>
- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- Amendments to SFRS(I) 1-28: *Long-term Interests in Associates and Joint Ventures*
- Amendments to SFRS(I) 1-19: *Plan Amendment, Curtailment or Settlement*

Management anticipates that the adoption of the above SFRS(I)s and SFRS(I)s INT in the future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for SFRS(I) 9, SFRS(I) 15 and SFRS(I) 16.

<u>SFRS(I) 9 *Financial Instruments*</u>

SFRS(I) 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in SFRS(I) 9 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Group to make changes to its current systems and processes.

SFRS(I) 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the potential impact of the application of SFRS(I) 9 on the financial statements of the Group in the period of their initial application.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.3 **FULL CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND ADOPTION OF NEW STANDARDS– cont'd**

SFRS(I) 15 *Revenue from Contracts with Customers*

SFRS(I) 15 establishes a five-step model that will apply to revenue arising from contracts with customers. Under SFRS(I) 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in SFRS(I) 15 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

Key issues for the Group include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the potential impact of the application of SFRS(I) 15 on the financial statements of the Group in the period of their initial application.

SFRS(I) 16 *Leases*

SFRS(I) 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity.

SFRS(I) 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-to-use asset representing its right to use the underlying lease asset and a lease liability representing its obligation to make lease payments.

SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019 with early application permitted for entities that apply SFRS(I) 15 *Revenue from Contracts with Customers* at or before the date of initial application of SFRS(I) 16. The Group is currently assessing the potential impact of the application of SFRS(I) 16 on the financial statements of the Group in the period of their initial application.

2.4 **SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.4 **SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**– *cont'd*

(a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Notes 2.5 to 2.26 to the financial statements, management had made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(i) Impairment of available-for-sale financial assets

Equity investment at cost
The Group follows the guidance of FRS 39 in determining when an available-for-sale financial asset is considered impaired. This determination requires significant judgement. Management reviews any objective evidence of impairment on an annual basis. Where there is objective evidence of impairment, management makes judgement as to whether an impairment loss should be recorded in profit or loss. The carrying amount of the financial assets, available-for-sale at cost affected by the judgement is $23,799 (2017: $22,493).

The cumulative amount of impairment loss recognised for the Group's available-for-sale financial assets was $6,704 (2017: $6,336) (Note 8).

(ii) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices. Management has assessed that prices are mainly denominated and settled in the respective local currency of the entities of the Group. In addition, most of the entities' cost base is mainly denominated in their respective local currency. Therefore, management concluded that the functional currency of the entities of the Group is their respective local currency.

(b) Critical accounting estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS– *cont'd*

(b) Critical accounting estimates and assumptions – *cont'd*

(i) Depreciation of property, plant and equipment

The cost, less the residual values, of property, plant and equipment are depreciated on the straight-line method over their estimated economic useful lives. Management estimates the economic useful lives of these assets to be within 5 to 999 years. As changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised. The carrying amounts of the Group's property, plant and equipment as at the end of the financial year are disclosed in Note 3.

(ii) Allowance for inventory obsolescence

At the end of the financial year, the Group assesses whether any allowance for inventory obsolescence is required based on the best available facts and circumstances, including but not limited to, the inventories' physical conditions, age of inventories, their market selling prices, and estimated costs to be incurred for their sales. An amount of estimation is required to determine the inventory obsolescence. The allowances are re-evaluated and adjusted when additional information are received which affects the amount estimated.

As at the end of financial year, no allowance for inventory obsolescence is made.

(iii) Allowance for doubtful trade receivables

The Group assesses at the end of each financial year whether there is any objective evidence that the recoverability of a receivable is doubtful. The determination of allowance for doubtful receivables is based on the review of the ageing analysis of outstanding accounts, past collection and payment history and the current financial status of each customer for any objective evidence that the debts is not recoverable. A considerable amount of estimation is required to determine the ultimate realisation of these receivables.

The carrying amounts of trade receivables and the allowance for doubtful trade receivables are disclosed in Note 11.

(iv) Income tax

The Group has exposure to income taxes in various jurisdictions. Significant judgement is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the current income tax and deferred income tax provision in the financial year in which such determination is made.

The Group is subject to income taxes in various jurisdictions. In determining the income tax liabilities, management is required to estimate the amount of capital allowances and the deductibility of certain expenses ("uncertain tax positions") at each tax jurisdiction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.5 GROUP ACCOUNTING

(a) Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

In preparing the consolidated financial statements, intercompany transactions and balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and statements of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) Acquisition of subsidiaries and businesses

The acquisition method of accounting is used to account for business combinations entered into the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.5 **GROUP ACCOUNTING** – *cont'd*

(a) Subsidiaries – *cont'd*

(ii) Acquisition of subsidiaries and businesses – *cont'd*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

(iii) Disposals of subsidiaries or businesses

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to Note 2.8 for the accounting policy on investments in subsidiaries and associates in the separate financial statements of the Company.

(b) Transactions with non-controlling interests

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised within equity attribute to the equity holders of the Company.

(c) Associates

An associate is an entity over which the Group has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

Investments in associates are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on associates represents the excess of the cost of acquisition of the associate over the Group's share of the fair value of the identifiable net assets of the associate and is included in the carrying amount of the investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.5 GROUP ACCOUNTING – *cont'd*

(c) Associates – *cont'd*

In applying the equity method of accounting, the Group's share of its associates' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associates are adjusted against the carrying amount of the investment. Dividends received from associates are recognised as a reduction of the carrying amounts of the investments. When the Group's share of losses in an associate equals to or exceeds its interest in the associate, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations to make, or has made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its shares of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates are changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Gains and losses arising from partial disposals or dilutions in investments in associates are recognised in profit or loss.

Investments in associates are derecognised when the Group losses significant influence. If the retained equity interest in the former associates is a financial asset, the retained equity interest is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when significant influence is lost, and its fair value and any proceeds on partial disposal, is recognised in profit or loss.

Please refer to Note 2.8 for the accounting policy on investments in subsidiaries and associates in the separate financial statements of the Company.

2.6 PROPERTY, PLANT AND EQUIPMENT

(a) Measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses if any, except for certain leasehold land and buildings that are carried at their revalued amounts in 1982, less subsequent accumulated depreciation. The revaluation was based on valuation reports of independent professional valuers using the open market value basis.

In accordance with the relevant accounting standards, an entity that had revalued its property, plant and equipment before 1 January 1984 (in accordance with the prevailing accounting standard at that time); or performed any one-off revaluation on its property, plant and equipment between 1 January 1984 and 31 December 1996 (both dates inclusive), there will be no need for the entity to revalue its assets in accordance with the standard.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.6 **PROPERTY, PLANT AND EQUIPMENT** – *cont'd*

(a) Measurement – *cont'd*

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) Depreciation

Depreciation is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

	Years
Leasehold land	924
Leasehold building	50
Leasehold land and buildings	25 to 999
Motor vehicles	5 to 10
Office equipment and fittings	5 to 10

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each financial year. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets still in use are retained in the financial statements.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

2.7 **INVESTMENT PROPERTY**

An investment property is a property held either to earn rental income and/or for capital appreciation rather than for use in production or supply of goods or services or for administrative purposes.

An investment property is initially recognised at cost and subsequently carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to allocate the depreciable amounts of the investment property over the estimated useful lives as follows:

	Years
Building	50

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.7 INVESTMENT PROPERTY – *cont'd*

The investment property is not depreciated during the financial year as it is currently construction in progress.

No depreciation is provided on freehold land.

The residual values, useful lives and depreciation method of investment property are reviewed, and adjusted as appropriate, at the end of each financial year. The effects of any revision are recognised in profit or loss when the changes arise.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2.8 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are carried at cost less any accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.9 FINANCIAL ASSETS

(a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets, at fair value through profit or loss

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Short-term investments are classified in this category and are presented as current assets in the statement of financial position.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the end of the financial year which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables", "fixed deposits", "cash and cash equivalents" and "amounts owing by subsidiaries" on the statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Long-term investment is classified in this category and it is presented as non-current asset unless the investment matures or management intends to dispose of the asset within 12 months after the end of the financial year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.9 FINANCIAL ASSETS – *cont'd*

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount recognised in the fair value reserve relating to that asset is reclassified to the consolidated statement of comprehensive income.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

(d) Subsequent measurement

Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Unquoted equity securities are subsequently carried at fair value unless their fair values cannot be reliably measured in which case, they are carried at cost less impairments, if any.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation are recognised in profit or loss when the changes arise.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss when available-for-sale equity securities are carried at fair value. Changes in their fair values of financial assets (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

(e) Impairment

The Group assesses at the end of each financial year whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.9 **FINANCIAL ASSETS** – *cont'd*

(i) Loans and receivables - cont'd

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior years.

(ii) Financial assets, available-for-sale (carried at cost)

If there is objective evidence of impairment (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost had been incurred, the amount of cumulative loss that is reclassified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed through profit or loss in subsequent periods.

2.10 **INVENTORIES**

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Costs include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. A write down on cost is made when the cost is not recoverable or if their selling prices have declined. Allowance is made for deteriorated, damaged, obsolete and slow moving stocks.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.11 **CASH AND CASH EQUIVALENTS**

Cash and bank balances are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash on hand and in banks and short-term deposits which are held to maturity are carried at cost.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.11 CASH AND CASH EQUIVALENTS – *cont'd*

For the purposes of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value and bank overdrafts. Bank overdrafts are presented as current borrowings on the statement of financial position.

2.12 FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are recognised when, the Group becomes a party to contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.13 FAIR VALUE ESTIMATION OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the end of the financial year. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment, investment property, investments in subsidiaries and associates are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the Cash-Generating Unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease. Please refer to the paragraph "Property, plant and equipment" for the treatment of a revaluation decrease.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also credited to profit or loss.

2.15 INCOME TAX

Current income tax for current and prior years is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted at the end of the financial year.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.15 **INCOME TAX**– *cont'd*

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the financial year; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the financial year, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in other comprehensive income. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.16 **CORPORATE GUARANTEES**

Corporate guarantees are initially recognised at their fair values plus transaction costs in the Company's statement of financial position.

Corporate guarantees are subsequently amortised to profit or loss over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the bank for an amount higher than the unamortised amount. In this case, the corporate guarantees shall be carried at the expected amount payable to the bank in the Company's statement of financial position.

2.17 **CURRENCY TRANSLATION**

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Singapore Dollar ("$"), which is the functional and presentation currency of the Company.

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the financial year are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.17 CURRENCY TRANSLATION– *cont'd*

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Company are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing exchange rate at the end of the financial year;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting currency translation differences are recognised in the foreign currency translation reserve.

2.18 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.19 DIVIDENDS TO COMPANY'S SHAREHOLDERS

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

2.20 REVENUE RECOGNITION

The Group recognises revenue when the amount of revenue and related costs can be reliably measured, when it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) Sale of goods – Trading income

Sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer which generally coincides with delivery and acceptance of the goods sold.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.20 REVENUE RECOGNITION – *cont'd*

(d) Sales of investments

Revenue from sales of investments is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

2.21 GOVERNMENT GRANTS

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

2.22 BORROWING COSTS

Borrowing costs are recognised in profit or loss in the year in which they are incurred using the effective interest method.

2.23 EMPLOYEE BENEFITS

(a) Contributions to provident funds

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. Singapore companies make contributions to the Central Provident Fund, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the same year as the employment that gives rise to the contributions.

(b) Provision for retirement benefits

Defined benefit plans are post-employment benefit pension plans other than defined contribution plans. Defined benefit plans typically define the amount of benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the end of the financial year less the fair value of plan assets, if any, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of high quality government bonds that are denominated in the currency in which the benefits will be paid and have tenures approximating to that of the related post-employment benefit obligations.

Actuarial gains and losses are recognised in profit or loss in the year when they arise.

Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.23 EMPLOYEE BENEFITS – *cont'd*

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting year.

2.24 LEASES

When the Group is the lessee:

The Group leases land and buildings under operating leases from related and non-related parties.

Lessee - Operating leases

Leases of property, plant and equipment where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

2.25 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief decision maker who is responsible for allocating resources and assessing performance of the operating segments.

2.26 PREPAID LEASE PAYMENTS

Leasehold land that normally has a definite economic life and where the title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. Payments made on entering into or acquiring leasehold land are accounted as prepaid lease payments and amortised evenly over the lease terms of the land.

3. PROPERTY, PLANT AND EQUIPMENT

	Revalued cost		Cost			
GROUP	**Leasehold land $**	**Leasehold building $**	**Leasehold land and buildings $**	**Motor vehicles $**	**Office equipment and fittings $**	**Total $**
Cost						
At 1 August 2016	29,066	75,969	1,865,312	3,164,550	1,345,690	6,480,587
Transfer to Leasehold land and buildings	(29,066)	(75,969)	105,035	—	—	—
Additions	—	—	—	131,404	41,066	172,470
Disposals	—	—	—	(34,222)	(1,715)	(35,937)
Currency translation difference	—	—	(80,531)	(70,643)	(46,844)	(198,018)
At 31 July 2017	—	—	1,889,816	3,191,089	1,338,197	6,419,102
Additions	—	—	38,374	187,982	93,017	319,373
Disposals	—	—	—	(68,651)	(1,317)	(69,968)
Currency translation difference	—	—	110,236	100,207	65,920	276,363
At 31 July 2018	—	—	2,038,426	3,410,627	1,495,817	6,944,870
Accumulated Depreciation						
At 1 August 2016	1,089	52,781	484,004	1,699,187	571,679	2,808,740
Transfer to Leasehold land and buildings	(1,089)	(52,781)	53,870	—	—	—
Charge for the year	—	—	52,515	275,456	126,988	454,959
Disposals	—	—	—	(34,222)	(1,715)	(35,937)
Currency translation difference	—	—	(23,086)	(58,868)	(21,432)	(103,386)
At 31 July 2017	—	—	567,303	1,881,553	675,520	3,124,376
Charge for the year	—	—	53,967	294,655	129,381	478,003
Disposals	—	—	—	(68,651)	(1,317)	(69,968)
Currency translation difference	—	—	33,616	84,441	32,932	150,989
At 31 July 2018	—	—	654,886	2,191,998	836,516	3,683,400
Net Carrying Amount						
At 31 July 2017	—	—	1,322,513	1,309,536	662,677	3,294,726
At 31 July 2018	—	—	1,383,540	1,218,629	659,301	3,261,470

3. **PROPERTY, PLANT AND EQUIPMENT** – *cont'd*

COMPANY	**Motor vehicles $**	**Office equipment and fittings $**	**Total $**
Cost			
At 1 August 2016	445,105	206,967	652,072
Additions	34,069	4,839	38,908
Disposals	(34,222)	—	(34,222)
At 31 July 2017	444,952	211,806	656,758
Additions	—	1,950	1,950
At 31 July 2018	444,952	213,756	658,708
Accumulated Depreciation			
At 1 August 2016	182,086	89,166	271,252
Charge for the year	44,788	32,869	77,657
Disposals	(34,222)	—	(34,222)
At 31 July 2017	192,652	122,035	314,687
Charge for the year	44,596	30,263	74,859
At 31 July 2018	237,248	152,298	389,546
Net Carrying Amount			
At 31 July 2017	252,300	89,771	342,071
At 31 July 2018	207,704	61,458	269,162

Leasehold land and buildings of the Group with a total net carrying amount of $341,468 (2017: $337,660) have been mortgaged to secure banking facilities granted to a subsidiary (Note 18).

The Group's leasehold land and leasehold building stated at revalued cost were based on an independent appraisal by professional valuer, C. H. William, Talhar & Wong (Sabah) Sdn Bhd on 27 February 1982 at $29,066 and $75,969 [equivalent to RM88,000 and RM230,000 respectively] which were the fair value at that date.

Details of properties used for office and warehouse purposes are as follows:

Location	**Site area** *(sq. m)*	**Tenure**
TTB 2195, Lot 10, Ming Huat Commercial Warehouse, Tawau, Sabah	410	999 years from 1905
TD 2205, Lot 20, Ming Huat Commercial Warehouse, Tawau, Sabah	377	999 years from 1905

4. PREPAID LEASE

	GROUP	
	2018	2017
	$	$
Cost		
Balance at beginning of the financial year	1,860,625	1,939,913
Currency translation difference	108,067	(79,288)
Balance at end of the financial year	1,968,692	1,860,625
Accumulated Amortisation		
Balance at beginning of the financial year	375,335	340,847
Charge for the year	51,713	49,458
Currency translation difference	22,439	(14,970)
Balance at end of the financial year	449,487	375,335
Net Carrying Amount	1,519,205	1,485,290

Prepaid lease of the Group with a total net carrying amount of $338,453 (2017: $326,712) have been mortgaged to secure banking facilities granted to a subsidiary (Note 18).

Details of leasehold land used for office and warehouse purposes are as follows:

Location	Site area *(sq. m)*	Tenure
Lot 3, Km 8, Jalan Tuaran, Kota Kinabalu, Sabah	8,025	60 years from 2013
Lot 8, Block C, Saguking Warehouse, Federal Territory of Labuan	280	99 years from 1982
MDLD 1434, Lot 4B, Hopeley Ind Shophouse, Lahad Datu, Sabah	168	59 years from 1974
Lot 118, SEDCO Industrial Estate, Phase II B, Mile 3, North Road, Sandakan, Sabah	464	25 years from 2013
Lot PT 1542, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang	7,918	60 years from 1985

5. INVESTMENT PROPERTY

GROUP AND COMPANY	Freehold land $	Construction-in-progress $	Total $
Cost			
At 1 August 2016	3,879,481	1,231,841	5,111,322
Additions	—	4,356,294	4,356,294
At 31 July 2017	3,879,481	5,588,135	9,467,616
Additions	—	3,978,988	3,978,988
At 31 July 2018	3,879,481	9,567,123	13,446,604
Net Carrying Amount			
At 31 July 2017	3,879,481	5,588,135	9,467,616
At 31 July 2018	3,879,481	9,567,123	13,446,604
Fair Value			
At 31 July 2017			24,000,000
At 31 July 2018			24,000,000

Subsequent to the financial year, the redevelopment of the existing heritage building has been completed and temporary occupation permit has been obtained.

The following amounts are recognised in profit or loss:

	GROUP AND COMPANY	
	2018 $	2017 $
Rental income from investment property	—	—
Direct operating expenses arising from:		
- Investment property that generated rental income	—	—
- Investment property that did not generate rental income	63,608	61,219

The investment property of the Group will be leased to tenants under operating leases. The Group intends to lease out most of the space.

5. **INVESTMENT PROPERTY** – *cont'd*

The Company's investment property was appraised as at 31 July 2017 by an independent valuer, Edmund Tie & Company (SEA) Pte Ltd, at a fair value of $24,000,000 (Level 3 fair value hierarchy).

In accordance with the valuation report dated 1 August 2017, the valuation methodology used in determining the fair value of the investment property is the "Market Value Approach". Under this approach, the valuation is based on the highest value at which the sale interest in property might reasonably be expected to have been completed at the date of valuation.

Key Assumptions used in the Valuation Report

The following describes the key assumptions used in deriving at the fair value of the investment property: a) a willing seller; b) prior to the date of valuation, there had been a reasonable period (having regard to the natures of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms for the completion of the sale; c) no account is taken of any additional bid by a prospective purchaser with a special interest; and d) both parties to the transaction had acted knowledgeably, prudently and without compulsion.

The management is of the view that there is no material movement in fair value since then.

This property is professionally appraised every five years.

Details of the investment property is as follows:

Location	**Land area** *(sq. m)*	**Tenure**
2 MacTaggart Road, Singapore 368078	1,261	Freehold

6. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2018	2017
	$	$
Unquoted equity investments, at cost	20,649,874	20,649,874
Less: Impairment losses	(2,362,506)	(2,362,506)
	18,287,368	18,287,368

Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Place of incorporation/ business	Percentage of equity held 2018 %	2017 %
Held by the Company				
Khong Guan Food Products Pte. Ltd.^	Trading in quoted investments	Singapore	100.00	100.00
Victus Marketing Pte. Ltd.^	Trading in quoted investments	Singapore	100.00	100.00
Tau Meng Investments Pte. Ltd. ^	Investment holding	Singapore	100.00	100.00
Swee Hin Chan Company Sdn. Berhad #	Wholesaler of wheat flour, general goods and related products	Malaysia	89.82	89.82
Tong Guan Food Products Sdn. Bhd.@	Wholesaler of wheat flour, biscuits and other consumer goods	Malaysia	84.31	84.31

^ Audited by RT LLP

Audited by Ernst & Young, Malaysia

@ Audited by Deloitte PLT

In accordance with Rule 716 of The Singapore Exchange Securities Trading Limited, the AC and Board of Directors of the Company confirm that they are satisfied that the appointment of different auditors for its subsidiaries and significant associates (Note 7) would not compromise the standard and effectiveness of the audit of the Group and Company.

Carrying value of non-controlling interests

	2018	2017
	$	$
Swee Hin Chan Company Sdn Berhad	813,852	726,927
Tong Guan Food Products Sdn. Bhd.	1,818,955	1,634,529
	2,632,807	2,361,456

6. INVESTMENTS IN SUBSIDIARIES – *cont'd*

Summarised financial of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests to the Group. These are presented before their inter-company eliminations.

There were no transactions with non-controlling interests for the financial year ended 31 July 2018 and 31 July 2017.

Summarised statement of financial position

As at 31 July 2018	**Swee Hin Chan Company Sdn. Berhad $**	**Tong Guan Food Products Sdn. Bhd. $**
Current		
Assets	8,269,642	13,706,521
Liabilities	(2,800,739)	(3,331,404)
Total current net assets	5,468,903	10,375,117
Non-current		
Assets	2,557,931	1,285,612
Liabilities	(28,605)	(66,980)
Total non-current assets	2,529,326	1,218,632
Net assets	7,998,229	11,593,749

Summarised statement of comprehensive income

For the year ended 31 July 2018		
Revenue	24,634,627	32,183,345
Profit before tax	862,430	1,191,160
Income tax expense	(229,802)	(292,500)
Post-tax profit from continuing operation	632,628	898,660
Post-tax profit from discontinued operation	—	—
Other comprehensive income	420,300	612,079
Total comprehensive income	1,052,928	1,510,739
Total comprehensive income allocated to non-controlling interests	107,139	237,022
Dividend paid to non-controlling interests	20,214	52,596

6. **INVESTMENTS IN SUBSIDIARIES** – *cont'd*

Summarised statement of financial position

	Swee Hin Chan Company Sdn. Berhad $	Tong Guan Food Products Sdn. Bhd. $
As at 31 July 2017		
Current		
Assets	5,814,649	12,823,220
Liabilities	(1,122,648)	(3,526,593)
Total current net assets	4,692,001	9,296,627
Non-current		
Assets	2,475,394	1,186,537
Liabilities	(23,434)	(64,916)
Total non-current assets	2,451,960	1,121,621
Net assets	7,143,961	10,418,248

Summarised statement of comprehensive income

For the year ended 31 July 2017		
Revenue	19,161,043	32,697,240
Profit before tax	496,664	1,350,156
Income tax expense	(140,998)	(361,127)
Post-tax profit from continuing operation	355,666	989,029
Post-tax profit from discontinued operation	—	—
Other comprehensive income	(301,086)	(430,267)
Total comprehensive income	54,580	558,762
Total comprehensive income allocated to non-controlling interests	5,554	87,665
Dividend paid to non-controlling interests	19,756	51,405

6. INVESTMENTS IN SUBSIDIARIES – *cont'd*

Summarised cash flows

For the year ended 31 July 2018	**Swee Hin Chan Company Sdn. Berhad $**	**Tong Guan Food Products Sdn. Bhd. $**
Cash flows from operating activities		
Cash generated from operations	602,477	1,743,931
Interest income	3,402	—
Income tax paid	(226,039)	(294,184)
Net cash generated from operating activities	379,840	1,449,747
Net cash used in investing activities	(140,936)	(167,469)
Net cash used in financing activities	(198,660)	(335,238)
Net increase in cash and cash equivalents	40,244	947,040
Cash and cash equivalents at beginning of the year	853,258	733,237
Exchange gain on cash and cash equivalents	50,056	54,314
Cash and cash equivalents at end of the year	943,558	1,734,591

7. INVESTMENTS IN ASSOCIATES

	GROUP	
	2018	2017
	$	$
Unquoted equity investments, at cost	12,035,540	12,035,540
Share of post-acquisition reserves	12,715,603	12,351,605
Share of capital reserve	145,405	190,074
Foreign currency translation reserves	(5,196,226)	(6,255,353)
	19,700,322	18,321,866

Movements for share of post-acquisition reserves		
Balance at beginning of the financial year	12,351,605	10,999,115
Share of results	891,513	1,839,338
Dividends received	(527,515)	(536,424)
Disposal	—	49,576
Balance at end of the financial year	12,715,603	12,351,605

Summarised statement of financial position

As at 31 July 2018	United Malayan Flour (1996) Sdn Bhd (*) $	Borneo Can Sendirian Berhad $	Total $
Current assets	57,751,965	—	57,751,965
Includes:			
- Cash and cash equivalents	25,156,776	—	25,156,776
Current liabilities	(6,815,164)	—	(6,815,164)
Includes:			
- Financial liabilities (excluding trade payables)	(2,088,163)	—	(2,088,163)
Non-current assets	35,088,244	—	35,088,244
Non-current liabilities	(9,136,162)	—	(9,136,162)
Includes:			
- Financial liabilities	(6,907,477)	—	(6,907,477)
- Other liabilities	(644,643)	—	(644,643)
Net assets	76,888,883	—	76,888,883

**** The entity is a group of companies that consist of Federal Oats Mills Sdn Bhd, Leong Hong Oil Mill Sdn Bhd and United Commercial Trading (M) Sdn Bhd.***

7. INVESTMENTS IN ASSOCIATES – *cont'd*

Summarised statement of comprehensive income

For the year ended 31 July 2018	United Malayan Flour (1996) Sdn Bhd $	Borneo Can Sendirian Berhad $	Total $
Revenue	81,148,176	—	81,148,176
Interest income	472,666	—	472,666
Expenses			
Includes:			
- Depreciation and amortisation	(1,900,174)	—	(1,900,174)
- Interest expense	—	—	—
Profit before tax	5,210,083	—	5,210,083
Income tax expense	(1,314,297)	—	(1,314,297)
Post-tax profit			
- continuing	3,895,786	—	3,895,786
Post-tax loss			
- discontinued	—	—	—
Other comprehensive income	(148,469)	—	(148,469)
Total comprehensive income	3,747,317	—	3,747,317
Dividend received from associated company	527,515	—	527,515

Summarised statement of financial position

As at 31 July 2017	United Malayan Flour (1996) Sdn Bhd $	Borneo Can Sendirian Berhad $	Total $
Current assets	49,240,524	—	49,240,524
Includes:			
- Cash and cash equivalents	18,247,081	—	18,247,081
Current liabilities	(4,258,907)	—	(4,258,907)
Includes:			
- Financial liabilities (excluding trade payables)	(2,565,533)	—	(2,565,533)
Non-current assets	27,949,896	—	27,949,896
Non-current liabilities	(2,090,399)	—	(2,090,399)
Includes:			
- Financial liabilities	—	—	—
- Other liabilities	(662,596)	—	(662,596)
Net assets	70,841,114	—	70,841,114

7. **INVESTMENTS IN ASSOCIATES** – *cont'd*

Summarised statement of comprehensive income

For the year ended 31 July 2017	**United Malayan Flour (1996) Sdn Bhd $**	**Borneo Can Sendirian Berhad $**	**Total $**
Revenue	80,479,689	29,577	80,509,266
Interest income	551,905	—	551,905
Expenses			
Includes:			
- Depreciation and amortisation	(1,794,379)	—	(1,794,379)
- Interest expense	—	—	—
Profit/(loss) before tax	9,444,674	(1,673)	9,443,001
Income tax expense	(2,046,185)	(14,087)	(2,060,272)
Post-tax profit			
- continuing	7,398,489	—	7,398,489
Post-tax loss			
- discontinued	—	(15,760)	(15,760)
Other comprehensive income	179,159	—	179,159
Total comprehensive income	7,577,648	(15,760)	7,561,888
Dividend received from associated company	536,424	—	536,424

7. INVESTMENTS IN ASSOCIATES – *cont'd*

Reconciliation of Summarised Financial Information

GROUP	United Malayan Flour (1996) Sdn Bhd 2018 $	United Malayan Flour (1996) Sdn Bhd 2017 $	Total 2018 $	Total 2017 $
Net assets				
At begining of the financial year	70,841,114	68,033,101	70,841,114	68,033,101
Profit for the financial year	3,895,786	7,398,489	3,895,786	7,398,489
Dividend paid				
- company	(1,787,940)	(1,747,440)	(1,787,940)	(1,747,440)
- subsidiary company	(49,764)	(121,593)	(49,764)	(121,593)
Other comprehensive income	(148,469)	179,159	(148,469)	179,159
Foreign exchange differences	4,138,156	(2,900,602)	4,138,156	(2,900,602)
At end of the financial year	76,888,883	70,841,114	76,888,883	70,841,114
Associates' non-controlling interest	(11,195,636)	(9,768,226)	(11,195,636)	(9,768,226)
Net assets attributable to the Group	65,693,247	61,072,888	65,693,247	61,072,888
Interest in associated companies	19,700,322	18,321,866	19,700,322	18,321,866
Add:				
Carrying value of individually immaterial associated companies			—	—
Carrying value of Group's interest in associated companies			19,700,322	18,321,866

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Effective interest held by Group 2018 %	Effective interest held by Group 2017 %
Held by Tau Meng Investments Pte. Ltd.				
United Malayan Flour (1996) Sdn. Bhd. +	Milling and trading of wheat flour and related products	Malaysia	30.00	30.00
Held by Tong Guan Food Products Sdn. Bhd.				
Borneo Can Sendirian Berhad @	Wound up*	Malaysia	—	—

+ Audited by Ernst & Young, Malaysia

@ Audited by Deloitte PLT

* The liquidation of the associate was completed during the financial year.

8. LONG-TERM INVESTMENT

Long-term investment is classified as available-for-sale financial assets as follows:

	GROUP 2018 $	GROUP 2017 $	COMPANY 2018 $	COMPANY 2017 $
Available-for-sale financial assets				
Unquoted equity investments:				
At cost	30,503	28,829	—	—
Less: Impairment loss				
Balance at beginning of the financial year	(6,336)	(346,494)	—	(339,888)
Disposal	—	339,888	—	339,888
Currency translation difference	(368)	270	—	—
Balance at end of the financial year	(6,704)	(6,336)	—	—
	23,799	22,493	—	—

Available-for-sale financial assets comprise the following:

	GROUP 2018 $	GROUP 2017 $	COMPANY 2018 $	COMPANY 2017 $
Unquoted equity investments:				
- Malaysia	23,799	22,493	—	—

The available-for-sale unquoted equity investment is carried at its cost because fair value cannot be reliably measured. This investment is not quoted on any market. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant. Consequently, it is carried at cost less allowance for impairment. Management will evaluate its investment from time to time and may consider disposing it when the opportunity arises.

9. INVENTORIES

	GROUP 2018 $	GROUP 2017 $	COMPANY 2018 $	COMPANY 2017 $
Trading inventories - at cost	6,601,536	5,894,707	7,500	—
Goods-in-transit - at cost	1,081,997	977,629	—	—
	7,683,533	6,872,336	7,500	—

The cost of inventories recognised as an expense as included in the consolidated statement of profit or loss and other comprehensive income amounted to $51,994,823 (2017: $49,095,423).

10. SHORT-TERM INVESTMENTS

Short-term investments are classified as financial assets at fair value through profit or loss as follows:

	GROUP	
	2018	2017
	$	$
Held for trading		
Equity investments quoted in:		
- Singapore	3,290,395	3,484,499
- Malaysia	2,133,907	2,350,345
- Hong Kong	—	1,474
	5,424,302	5,836,318

Financial assets at fair value through profit or loss are denominated in the following currencies:

	GROUP	
	2018	2017
	$	$
Singapore Dollar	3,269,220	3,445,192
Ringgit Malaysia	2,133,907	2,350,345
United States Dollar	21,175	39,307
Hong Kong Dollar	—	1,474
	5,424,302	5,836,318

11. TRADE RECEIVABLES

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Third parties	11,710,322	10,511,674	317,580	480,303
Related parties	9,301	45,286	—	—
	11,719,623	10,556,960	317,580	480,303
Less: Allowance for doubtful receivables				
Balance at beginning of the financial year	(442,507)	(11,506)	—	—
Allowance made for the year	(53,477)	(440,732)	—	—
Bad debts written off	10,252	—	—	—
Currency translation difference	(25,567)	9,731	—	—
Balance at end of the financial year	(511,299)	(442,507)	—	—
	11,208,324	10,114,453	317,580	480,303

11. **TRADE RECEIVABLES** – *cont'd*

Trade receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Singapore Dollar	397,332	593,052	317,580	480,303
Ringgit Malaysia	10,810,992	9,521,401	—	—
	11,208,324	10,114,453	317,580	480,303

Trade receivables are non-interest bearing and are generally on 30 to 90 days (2017: 30 to 90 days) term. Trade receivables are not secured by any collateral.

The Group's and Company's trade receivables at the end of the financial year are analysed as follows:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Not past due and not impaired (a)	8,100,426	8,055,332	221,556	225,588
Past due but not impaired (b)	3,107,898	2,059,121	96,024	254,715
	11,208,324	10,114,453	317,580	480,303
Impaired receivables (c)				
Individually assessed	511,299	442,507	—	—
Allowance for doubtful receivables	(511,299)	(442,507)	—	—
	—	—	—	—
	11,208,324	10,114,453	317,580	480,303

(a) Not past due and not impaired

Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

(b) Ageing of receivables which are past due but not impaired:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Less than 30 days	1,891,240	792,667	96,024	82,567
31 to 60 days	499,802	368,604	—	116,616
61 to 90 days	166,293	771,436	—	52,604
More than 90 days	550,563	126,414	—	2,928
	3,107,898	2,059,121	96,024	254,715

The Group has not recognised an allowance for doubtful receivables for these amounts, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

11. TRADE RECEIVABLES – *cont'd*

(c) Impaired receivables

Impaired receivables, individually determined at the end of the financial year, relate to debtors who are in significant financial difficulties and have defaulted in payments. These receivables are not secured by any collateral.

12. OTHER RECEIVABLES

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Sundry receivables	343,114	352,637	—	131,500
Interest receivable	6,070	5,795	6,070	5,795
Deposits	300,829	117,540	278,254	44,688
Prepayments	133,319	94,172	66,028	46,294
	783,332	570,144	350,352	228,277

Other receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Singapore Dollar	351,601	230,369	344,282	223,054
Ringgit Malaysia	431,731	339,775	6,070	5,223
	783,332	570,144	350,352	228,277

13. AMOUNTS OWING BY SUBSIDIARIES

	COMPANY	
	2018	2017
	$	$
Amounts owing by subsidiaries, non-trade	3,800,300	5,719,299
Less: Allowance for doubtful receivable		
Balance at beginning of the financial year	(304,000)	(442,000)
Allowance written back for the year	46,000	138,000
Balance at end of the financial year	(258,000)	(304,000)
	3,542,300	5,415,299

The amounts owing by subsidiaries are unsecured, repayable on demand and interest-free.

Amounts owing by subsidiaries are denominated in Singapore Dollar.

14. FIXED DEPOSITS

Fixed deposits of the Group and Company are placed with licensed financial institutions and mature within one month (2017: one month) from the end of the financial year. The effective interest as at 31 July 2018 is 3.35% (2017: 3.37%).

Fixed deposits are denominated in the following currencies:

	GROUP		COMPANY	
	2018 $	2017 $	2018 $	2017 $
Singapore Dollar	—	5,500,000	—	5,500,000
Ringgit Malaysia	4,200,542	3,852,045	4,133,149	3,782,195
	4,200,542	9,352,045	4,133,149	9,282,195

15. CASH AND BANK BALANCES

Cash and bank balances are denominated in the following currencies:

	GROUP		COMPANY	
	2018 $	2017 $	2018 $	2017 $
Singapore Dollar	4,968,521	3,761,132	3,010,784	888,722
Ringgit Malaysia	2,695,179	1,607,307	5,193	5,736
Hong Kong Dollar	1,645	1,709	—	—
	7,665,345	5,370,148	3,015,977	894,458

16. TRADE PAYABLES

	GROUP		COMPANY	
	2018 $	2017 $	2018 $	2017 $
Third parties	2,831,951	3,054,738	—	—
Related parties (Note 31)	3,189,362	1,479,154	328,479	268,687
	6,021,313	4,533,892	328,479	268,687

16. TRADE PAYABLES – *cont'd*

Trade payables are denominated in the following currencies:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Singapore Dollar	328,479	268,687	328,479	268,687
United States Dollar	627,256	528,067	—	—
Ringgit Malaysia	5,065,578	3,737,138	—	—
	6,021,313	4,533,892	328,479	268,687

Trade payables are non interest-bearing and are normally settled within 30 to 90 days (2017: 30 to 90 days).

Included in trade payables, is an aggregate amount of $400,510 [equivalent to RM1,194,840] (2017: $744,280 [equivalent to RM2,349,368]) which is secured by corporate guarantees provided by the Company to certain suppliers of a subsidiary [Note 34 (b)].

17. OTHER PAYABLES

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Sundry payables	1,241,860	841,492	1,032,095	632,902
Accrued expenses	588,781	583,733	299,998	348,792
	1,830,641	1,425,225	1,332,093	981,694

Non-trade payables are non-interest bearing and are normally settled within 90 (2017: 90) days or on demand.

The payables are denominated in the following currencies:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Singapore Dollar	1,391,632	1,041,189	1,332,093	981,694
Ringgit Malaysia	439,009	384,036	—	—
	1,830,641	1,425,225	1,332,093	981,694

18. BANK FACILITIES

The subsidiaries has unused banking facilities which were secured by:

(a) mortgages over leasehold land and buildings with a total net carrying amount of $341,468 (2017: $337,660) (Note 3) of the Group;

(b) mortgages over prepaid lease payments with a total net carrying amount of $338,453 (2017: $326,712) (Note 4) of the Group;

(c) corporate guarantees from the Company [see Note 34(a)]; and

(d) a negative pledge by a subsidiary.

19. PROVISION FOR RETIREMENT BENEFITS

	GROUP AND COMPANY	
	2018	**2017**
	$	**$**
Balance at beginning of the financial year	237,538	307,223
Payment made	—	(90,117)
Provision made	21,530	20,432
Balance at end of the financial year	259,068	237,538

The Company has a defined benefit plan for qualifying employees of the Company. Under the plan, the employees are entitled to receive a benefit of 10/26 of their final salary for each year of service up to the retirement age of 62 years.

	GROUP AND COMPANY	
	2018	**2017**
	$	**$**
Obligations recognised in the statement of financial position for:		
Pension benefits	259,068	237,538
Expenses charged to profit or loss:		
Pension benefits	21,530	20,432

	GROUP AND COMPANY	
	2018	**2017**
	$	**$**
The amount recognised in the statement of financial position is determined as follows:		
Present value of unfunded obligations and liability recognised in the statement of financial position	259,068	237,538

19. PROVISION FOR RETIREMENT BENEFITS – *cont'd*

	GROUP AND COMPANY	
	2018	2017
	$	$
The amounts recognised in profit or loss are as follows:		
Current service cost	18,790	17,664
Interest cost	215	204
Remeasurement - loss from change in financial assumptions	2,525	2,564
	21,530	20,432

Movements in the defined benefit obligation are as follows:

	GROUP AND COMPANY	
	2018	2017
	$	$
Balance at beginning of the financial year	237,538	307,223
Current service cost	18,790	17,664
Interest cost	215	204
Actuarial loss	2,525	2,564
Benefits paid	—	(90,117)
Balance at end of the financial year	259,068	237,538

The significant actuarial assumptions used were as follows:

	GROUP AND COMPANY	
	2018	2017
Discount rate	1.0%	1.0%
Salary increment rate	6.0%	6.0%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	GROUP AND COMPANY Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 5.5%	Increase by 5.6%
Salary increment rate	2.0%	Increase by 1.8%	Decrease by 1.8%

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous financial year.

20. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities, determined after appropriate offsetting, are attributable to the following:

	GROUP	
	2018	**2017**
	$	**$**
Deferred tax liabilities		
Fair value gains on short-term investments	307,842	399,569
Excess of carrying amount over tax written down value of property, plant and equipment and others	95,585	88,350
	403,427	487,919

Deferred tax assets and liabilities are netted off when related to the same tax authority.

Movements in deferred tax assets and liabilities of the Group are analysed as follows:

	GROUP	
	2018	**2017**
	$	**$**
Deferred tax liabilities		
Balance at beginning of the financial year	487,919	514,586
(Credited)/charged to profit or loss		
- current	(91,608)	(25,252)
- prior years	1,958	2,366
Currency translation difference	5,158	(3,781)
Balance at end of the financial year	403,427	487,919
Net deferred taxation credited to profit or loss (Note 27)	(89,650)	(22,886)

21. SHARE CAPITAL

	GROUP AND COMPANY	
	2018	**2017**
	$	**$**
Issued and fully paid:		
25,812,520 (2017: 25,812,520) ordinary shares	33,278,673	33,278,673

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

22. CAPITAL RESERVE

	GROUP	
	2018	2017
	$	$
NON-DISTRIBUTABLE		
Balance at beginning of the financial year	190,379	140,790
Share of associate's capital reserve	(44,669)	49,589
Balance at end of the financial year	145,710	190,379

Capital reserve records the share of the associate's capital reserve which represents fair value reserve.

23. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

24. REVENUE

	GROUP	
	2018	2017
	$	$
Sale of goods to:		
third parties	57,694,142	52,948,091
related parties	261,349	181,109
Sale of short-term investments	2,725,128	3,788,985
Gross dividends from:		
quoted equity investments	147,260	186,864
unquoted equity investment	6,109	5,970
	60,833,988	57,111,019

25. OTHER INCOME

	GROUP	
	2018	**2017**
	$	**$**
Reversal of allowance for doubtful trade receivables	—	606
Gain on disposal of property, plant and equipment	9,018	2,093
Transport charges received	1,280	360
Government grants	11,307	21,850
Interest income	140,311	134,161
Management fee received from a related party	12,000	12,000
Commission received	—	78,842
Foreign exchange gain, net	274,114	—
Sundry income	41,938	13,784
	489,968	263,696

26. PROFIT BEFORE TAX

This is stated after charging/(crediting) the following items which have not been otherwise disclosed elsewhere in the financial statements:

	GROUP	
	2018	2017
	$	$
The aggregate amount of:		
- audit fees paid to the Company auditors	49,021	49,021
- non-audit fees paid to the Company auditors	—	1,200
- audit fees paid to subsidiaries auditors	15,727	15,565
- non-audit fees paid to subsidiaries auditors	1,291	6,181
Allowance for doubtful trade receivables	53,477	441,338
Contributions to provident funds		
- directors	51,315	50,875
- employees	295,160	281,583
Directors' remuneration		
- directors of the Company	991,707	1,012,152
- directors of subsidiaries	100,521	96,504
Foreign exchange loss, net	—	133,418
Bank interest expenses	—	284
Operating lease expense	144,998	132,414
Provision for retirement benefits	21,530	20,432
Fair value gain on short-term investment	(258,956)	(286,501)

Key management personnel comprise directors of the Group and their remuneration is disclosed in the above note.

27. INCOME TAX EXPENSE

	GROUP 2018 $	GROUP 2017 $
Current taxation:		
Malaysian tax	520,815	499,831
Tax deducted at source	2,038	1,967
	522,853	501,798
Prior year's (over)/under provision	(590)	3,032
	522,263	504,830
Deferred taxation:		
Current	(91,608)	(25,252)
Prior year's underprovision	1,958	2,366
	(89,650)	(22,886)
	432,613	481,944

A numerical reconciliation between the accounting profit and tax expense is as follows:

	2018 $	2017 $
Profit before tax	1,675,234	1,969,679
Tax at the applicable rate of 17% (2017: 17%)	284,789	334,845
Tax effects of:		
Expenses not deductible for tax purposes	86,622	144,979
Income not subject to tax	(83,187)	(50,905)
Share of results of associates	(151,558)	(312,688)
Difference in tax rate of other countries	143,765	129,597
Deferred tax benefits not recognised	292,614	323,375
Utilisation of unabsorbed losses	(143,790)	(94,590)
	429,255	474,613
Withholding tax	1,990	1,933
Prior year's underprovision	1,368	5,398
Tax expense	432,613	481,944

At the end of the financial year, the Group has estimated unabsorbed tax losses totaling $31,119,000 (2017: $30,311,000) available for offsetting against future taxable profit earned by respective members of the Group incorporated in Singapore subject to the agreement of the Singapore tax authority.

Deferred tax benefits arising from such unabsorbed tax losses amounting to approximately $5,290,000 (2017: $5,153,000) for the Group have not been recognised as it is not currently probable that sufficient future taxable profits will be available against which they can be utilised.

28. EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the financial year:

	GROUP	
	2018	2017
Net profit attributable to ordinary equity holders on issue applicable to basic and diluted earnings per share ($)	1,037,257	1,296,375
Weighted average number of ordinary shares on issue applicable to basic and diluted earnings per share	25,812,520	25,812,520
Basic and diluted (in cents)	4.02	5.02

Diluted earnings per share is the same as the basic earnings per share as there are no dilutive ordinary shares.

29. DIVIDENDS

The final tax exempt one-tier dividend of $0.03 (2017: one-tier dividend of $0.03) per ordinary share amounting to $774,376 (2017: $774,376) declared for the financial year ended 31 July 2017 (2017: declared for the financial year ended 31 July 2016) was approved and paid during the financial year ended 31 July 2018 (2017: approved and paid during the financial year ended 31 July 2017).

The directors propose a final tax exempt one-tier dividend of $0.03 per ordinary share amounting to $774,376 in respect of the financial year ended 31 July 2018. This dividend has not been recognised as a liability at the end of the financial year as this is subject to approval at the Annual General Meeting of the Company.

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following items:

	GROUP	
	2018	2017
	$	$
Fixed deposits (Note 14)	4,200,542	9,352,045
Cash and bank balances (Note 15)	7,665,345	5,370,148
	11,865,887	14,722,193

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party is subject to common control, or the party is a member of key management personnel of the Group, or the party is a close family member of any individual of the key management personnel or controlling party.

Related parties include key management personnel such as directors who have the authority and responsibility for planning, directing and controlling the activities of the Group. Directors' remuneration is disclosed in Notes 26 and 32 to the financial statements.

In addition to information disclosed elsewhere in the financial statements, transactions with related parties at terms agreed between the parties were as follows:

	GROUP		COMPANY	
	2018 $	2017 $	2018 $	2017 $
Purchases from				
- associate	11,582,451	10,268,507	947,505	1,098,841
- related parties	8,628,040	8,172,870	4,200	3,360
Management fees received from subsidiaries	—	—	39,801	38,661
Rental paid to a related party	80,804	80,804	80,804	80,804

32. DIRECTORS' REMUNERATION

The number of directors of the Company whose remuneration falls within the following remuneration bands is:

	GROUP	
	2018 Number of directors	2017 Number of directors
Below $100,000	3	3
$100,001 to $250,000	1	1
$250,001 to $500,000	2	2

33. SEGMENT INFORMATION

For management purposes, the Group is organised into strategic business units based on their products and geography. The Group has three reportable operating segments as follows:

(a) Trading of wheat flour and consumer goods – trading of wheat flour and consumer goods in Singapore and Malaysia;

(b) Investment trading – trading of shares listed in mainly Singapore and Malaysia; and

(c) Investment holding – holding of shares in Singapore and Malaysia for dividend income.

33. **SEGMENT INFORMATION** – *cont'd*

Management monitors the results of each of the above operating segments for the purpose of making decisions about resource allocation and performance assessment. Performance is measured based on segment earnings before interest, taxation, depreciation and amortisation ("EBITDA"). EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Group financing (including finance costs) and income taxes are managed on a Group basis and are not allocated to operating segments. Segment assets and liabilities are presented net of inter-segment balances. Inter-segment pricing is determined on arm's length basis.

Geographically, management reviews the performance of the businesses in Singapore and Malaysia. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Non-current assets and total assets are based on the geographical location of the assets.

Information regarding the Group's reportable segments is presented below.

BUSINESS SEGMENTS

2018	Trading of wheat flour and consumer goods $	Investment trading $	Investment holding $	Group $
Revenue				
External revenue	57,955,491	2,725,128	153,369	60,833,988
Results				
Profit before interest, taxation, depreciation and amortisation	759,189	277,437	136,500	1,173,126
Depreciation and amortisation	(469,566)	(60,150)	—	(529,716)
Operating profit	289,623	217,287	136,500	643,410
Interest expense				—
Interest income				140,311
Share of results of associates, net of tax				891,513
Taxation				(432,613)
Profit after tax				1,242,621
Assets and Liabilities				
Segment assets	46,920,076	7,865,080	82,116	54,867,272
Associates				19,700,322
Unallocated assets				744,727
				75,312,321
Segments liabilities	6,809,623	51,468	8,071	6,869,162
Unallocated liabilities				1,645,287
				8,514,449

33. SEGMENT INFORMATION – *cont'd*

BUSINESS SEGMENTS – *cont'd*

2018 – *cont'd*	**Trading of wheat flour and consumer goods $**	**Investment trading $**	**Investment holding $**	**Group $**
Other segments information				
Expenditure for non-current assets	4,298,361	—	—	4,298,361
Other non-cash items:				
Allowance for doubtful trade receivables	53,477	—	—	53,477
2017				
Revenue				
External revenue	53,135,170	3,788,985	186,864	57,111,019
Results				
Profit/(loss) before interest, taxation, depreciation and amortisation	(75,451)	401,507	174,825	500,881
Depreciation and amortisation	(444,267)	(60,150)	—	(504,417)
Operating (loss)/profit	(519,718)	341,357	174,825	(3,536)
Interest expense				(284)
Interest income				134,161
Share of results of associates, net of tax				1,839,338
Taxation				(481,944)
Profit after tax				1,487,735

33. SEGMENT INFORMATION – *cont'd*

BUSINESS SEGMENTS – *cont'd*

2017 – *cont'd*	Trading of wheat flour and consumer goods $	Investment trading $	Investment holding $	Group $
Assets and Liabilities				
Segment assets	42,655,655	9,298,245	73,237	52,027,137
Associates				18,321,866
Unallocated assets				691,171
				71,040,174
Segments liabilities	5,295,668	51,344	8,151	5,355,163
Unallocated liabilities				1,329,411
				6,684,574
Other segments information				
Expenditure for non-current assets	4,528,764	—	—	4,528,764
Other non-cash items:				
Allowance for doubtful trade receivables	440,732	—	—	440,732
Foreign exchange loss	129,450	3,567	401	133,418

GEOGRAPHICAL SEGMENTS

	Singapore $	Malaysia $	Group $
2018			
Revenue			
External revenue	4,016,016	56,817,972	60,833,988
Assets			
Segment assets	29,776,008	25,091,264	54,867,272
Associates	—	19,700,322	19,700,322
Unallocated assets			744,727
			75,312,321
2017			
Revenue			
External revenue	5,252,736	51,858,283	57,111,019
Assets			
Segment assets	30,271,559	21,755,578	52,027,137
Associates	—	18,321,866	18,321,866
Unallocated assets			691,171
			71,040,174

There is no revenue from transactions with a single external customer amounting to 10% or more of the Group's revenue.

34. CONTINGENT LIABILITIES - unsecured

a) The Company has issued corporate guarantees amounting to $1,929,076 [equivalent to RM5,755,000] (2017: $1,823,184 [equivalent to RM5,755,000]) to certain banks for facilities granted to two subsidiaries. The aggregate amount of facilities utilised as at 31 July 2018 and 31 July 2017 was $NIL.

b) The Company has issued corporate guarantees amounting to $2,346,400 [equivalent to RM7,000,000] (2017: $2,217,600 [equivalent to RM7,000,000]) to certain suppliers of one subsidiary for credit purchases made from the suppliers.

c) The directors are of the view that the fair values of corporate guarantees provided by the Company are not material.

35. COMMITMENTS

(a) Operating lease commitments where the Group is a lessee

The Group leases premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the end of the financial year but not recognised as liabilities, are as follows:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Not later than one year	40,844	111,738	—	53,870
Between one and five years	5,866	37,222	—	—
	46,710	148,960	—	53,870

(b) Capital commitments

Capital expenditure contracted for and outstanding at the end of the reporting period but not recognised in the financial statements:

	GROUP		COMPANY	
	2018	2017	2018	2017
	$	$	$	$
Property, plant and equipment	702,008	171,981	643,560	93,100
Investment property	891,154	4,436,336	891,154	4,436,336

36. FINANCIAL RISK MANAGEMENT

Financial risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's financial risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's activities expose it to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and market prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's interest rate exposure relates primarily from its fixed deposits (see Note 14).

The Group places surplus funds with major financial institutions as fixed deposits to generate interest income. Interest rates on fixed deposits are determined based on market rates. Interest rate risk is managed by placing such surplus funds on varying maturities and interest rate terms. The Group does not use derivative financial instruments to hedge against interest rate risk. There have been no changes to this policy during the financial year.

Sensitivity analysis for interest rate risk

At the end of the financial year, if interest rates had been 100 (2017: 100) basis points higher/lower with all other variables held constant, the effect on the Group's profit before tax would have been $42,005 (2017: $93,520) higher/lower, arising mainly as a result of higher/lower interest income on fixed deposits. The methods and assumptions used are consistent with previous financial year.

(ii) Foreign exchange rate risk

Foreign currency risk arises from change in foreign exchange rates that may have an adverse effect on the Group's result in the current financial year and in the future years. The Group monitors its foreign currency risk exposure regularly and maintains natural hedge whenever possible by receiving and paying in the same foreign currency to minimise foreign currency risk. There have been no changes to this policy during the financial year.

The Group's exposure to foreign exchange risk relates to transactions denominated in currencies other than the respective functional currencies of Group entities, arising from normal trading and investment activities which are disclosed in the respective notes to the financial statements. The Group does not use foreign currency forward contracts for trading purposes.

36. FINANCIAL RISK MANAGEMENT – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

Entities within the Group, including the Group's associates maintain their books in their respective functional currencies. Profits and net assets of overseas entities are translated into Singapore Dollar, the Group's reporting currency for consolidation purposes. Fluctuations in the exchange rate between the functional currencies and Singapore Dollar will have an impact on the Group. As these investments are held on long term basis, hedging of exchange risk is inappropriate.

The Group's currency exposure is as follows:

Group	Ringgit Malaysia ("RM") $	Hong Kong Dollar ("HKD") $	United States Dollar ("USD") $	Singapore Dollar ("SGD") $	Total $
2018					
Assets					
Long-term investment	23,799	—	—	—	23,799
Short-term investments	2,133,907	—	21,175	3,269,220	5,424,302
Trade and other receivables	11,182,587	—	—	675,750	11,858,337
Fixed deposits	4,200,542	—	—	—	4,200,542
Cash and bank balances	2,695,179	1,645	—	4,968,521	7,665,345
	20,236,014	1,645	21,175	8,913,491	29,172,325
Liabilities					
Trade and other payables	5,504,587	—	627,256	1,720,111	7,851,954
	5,504,587	—	627,256	1,720,111	7,851,954
Net financial assets/ (liabilities)	14,731,427	1,645	(606,081)	7,193,380	21,320,371
Less: Net financial assets denominated in the respective entities' functional currencies	8,373,878	—	—	7,193,380	15,567,258
Currency exposure of financial assets/ (liabilities)	6,357,549	1,645	(606,081)	—	5,753,113

36. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

Group	Ringgit Malaysia ("RM") $	Hong Kong Dollar ("HKD") $	United States Dollar ("USD") $	Singapore Dollar ("SGD") $	Total $
2017					
Assets					
Long-term investment	22,493	—	—	—	22,493
Short-term investments	2,350,345	1,474	39,307	3,445,192	5,836,318
Trade and other receivables	9,820,390	—	—	770,035	10,590,425
Fixed deposits	3,852,045	—	—	5,500,000	9,352,045
Cash and bank balances	1,607,307	1,709	—	3,761,132	5,370,148
	17,652,580	3,183	39,307	13,476,359	31,171,429
Liabilities					
Trade and other payables	4,121,174	—	528,067	1,309,876	5,959,117
	4,121,174	—	528,067	1,309,876	5,959,117
Net financial assets/ (liabilities)	13,531,406	3,183	(488,760)	12,166,483	25,212,312
Less: Net financial assets denominated in the respective entities' functional currencies	7,302,981	—	—	12,166,483	19,469,464
Currency exposure of financial assets/ (liabilities)	6,228,425	3,183	(488,760)	—	5,742,848

36. FINANCIAL RISK MANAGEMENT – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

Company	Ringgit Malaysia ("RM") $	Singapore Dollar ("SGD") $	Total $
2018			
Assets			
Trade and other receivables	6,070	595,834	601,904
Amounts owing by subsidiaries	—	3,542,300	3,542,300
Fixed deposits	4,133,149	—	4,133,149
Cash and bank balances	5,193	3,010,784	3,015,977
	4,144,412	7,148,918	11,293,330
Liabilities			
Trade and other payables	—	1,660,572	1,660,572
	—	1,660,572	1,660,572
Net financial assets	4,144,412	5,488,346	9,632,758
Less: Net financial assets denominated in the Company's functional currency	—	5,488,346	5,488,346
Currency exposure of financial assets	4,144,412	—	4,144,412
2017			
Assets			
Trade and other receivables	5,223	657,063	662,286
Amounts owing by subsidiaries	—	5,415,299	5,415,299
Fixed deposits	3,782,195	5,500,000	9,282,195
Cash and bank balances	5,736	888,722	894,458
	3,793,154	12,461,084	16,254,238
Liabilities			
Trade and other payables	—	1,250,381	1,250,381
	—	1,250,381	1,250,381
Net financial assets	3,793,154	11,210,703	15,003,857
Less: Net financial assets denominated in the Company's functional currency	—	11,210,703	11,210,703
Currency exposure of financial assets	3,793,154	—	3,793,154

36. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

If the above currencies change against the SGD by 1% (2017: 1%) with all other variables including tax rate being held constant, the effects arising from the net financial assets/liabilities position will be as follows:

	2018 Increase/(decrease)		2017 Increase/(decrease)	
	Net profit $	Equity $	Net profit $	Equity $
Group				
RM against SGD				
- strengthened	63,575	—	62,284	—
- weakened	(63,575)	—	(62,284)	—
HKD against SGD				
- strengthened	16	—	32	—
- weakened	(16)	—	(32)	—
USD against SGD				
- strengthened	(6,061)	—	(4,888)	—
- weakened	6,061	—	4,888	—

	2018 Increase/(decrease)		2017 Increase/(decrease)	
	Net profit $	Equity $	Net profit $	Equity $
Company				
RM against SGD				
- strengthened	41,444	—	37,932	—
- weakened	(41,444)	—	(37,932)	—

(iii) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates). The Group is exposed to equity price risk arising from its investment in quoted equity instruments (short-term investments). These instruments are listed mainly in Singapore and Malaysia and they are classified as fair value through profit or loss.

36. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Market risk – *cont'd*

(iii) Market price risk – *cont'd*

The Group's policy is to manage investments returns and equity price risk using a mix of investment grade shares with steady dividend yield and non-investment grade shares with high volatility. There have been no changes to this policy during the financial year.

Sensitivity analysis for equity risk

At the end of the financial year, if prices for equity securities listed in Singapore and Malaysia changed by 10% (2017: 10%) and 5% (2017: 5%) respectively, with all other variables including tax rate being held constant, the effects on profit after tax and other comprehensive income would have been:

	2018		2017	
	Profit after tax $	Other comprehensive income $	Profit after tax $	Other comprehensive income $
Group				
Listed in Singapore				
- increased by	329,040	—	348,450	—
- decreased by	(329,040)	—	(348,450)	—
Listed in Malaysia				
- increased by	106,695	—	117,517	—
- decreased by	(106,695)	—	(117,517)	—

Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of customers or other parties to settle their financial and contractual obligations to the Group as and when they fall due. The Group's exposure to credit risk mainly relates to long-term and short-term investments, trade and other receivables and cash and cash equivalents.

For trade and other receivables, the management has a credit policy in place and the exposure of credit risk is monitored on an ongoing basis to minimise credit risk. Monies due from customers are followed up, reviewed on a regular basis to understand the reasons, if any, of non-payment or delay in payment so that appropriate action can be implemented promptly. Credit risks of individual counterparties are restricted by credit limits that are approved based on ongoing credit evaluations.

Cash and fixed deposits are placed with major banks and financial institutions. The Group limits its credit risk exposures in respect of investments by only investing in liquid securities and placing it with diverse creditworthy financial institutions.

36. FINANCIAL RISK MANAGEMENT – *cont'd*

Credit risk – *cont'd*

In relation to the corporate guarantees issued by the Company on behalf of its subsidiaries, the credit risk, being the principal risk to which the Company is exposed, represents the loss that would be recognised upon a default by the subsidiaries.

There have been no changes in the above policy during the financial year.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the financial year is as follows:

	2018		2017	
	$	% of total	$	% of total
By Country				
Singapore	397,332	4	593,052	6
Malaysia	10,810,992	96	9,521,401	94
	11,208,324	100	10,114,453	100

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of financial assets and financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash to meet normal operating commitments. There have been no changes to this policy during the financial year.

The table below analyses the Group's financial liabilities exposure into relevant maturity groupings based on contractual undiscounted cash flows.

36. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Liquidity risk – *cont'd*

	Within one year $
<u>Group</u>	
2018	
Trade and other payables	7,851,954
2017	
Trade and other payables	5,959,117
<u>Company</u>	
2018	
Trade and other payables	1,660,572
2017	
Trade and other payables	1,250,381

Fair value measurements

The following table analyses financial instruments carried at fair value. The different levels have been defined as follows:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at 31 July 2018 and 31 July 2017.

36. FINANCIAL RISK MANAGEMENT – *cont'd*

Fair value measurements – *cont'd*

	Level 1 $	Total $
Group		
2018		
Short-term investments	5,424,302	5,424,302
2017		
Short-term investments	5,836,318	5,836,318

Assets not carried at fair value but which fair value are disclosed

Group and Company	Carrying amount $	Level 1 $	Level 2 $	Level 3 $
2018				
Investment property	13,446,604	—	—	24,000,000
2017				
Investment property	9,467,616	—	—	24,000,000

The carrying amounts of cash and bank balances, fixed deposits, trade and other receivables and trade and other payables are assumed to approximate their fair value as these instruments are relatively short-term in nature. For short-term investments, their fair values are based on market quoted price. Unquoted investment is stated at cost less impairment loss, if any, as it has no market price and its fair value cannot be reliably measured by valuation techniques and the Group has no intention to dispose them.

Financial Instrument by category

The carrying amounts of the different categories of financial instruments are as described in Note 11, Note 12, Note 13, Note 14, Note 15, Note 16 and Note 17 to the financial statements and are as follows:

	GROUP		COMPANY	
	2018 $	2017 $	2018 $	2017 $
Loans and receivables	23,724,224	25,312,618	11,293,330	16,254,238
Financial liabilities at amortised cost	7,851,954	5,959,117	1,660,572	1,250,381

37. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to maintain a good credit rating and healthy capital ratios in order to support its business and enhance shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 July 2018 and 31 July 2017.

The capital structure of the Group consists of equity attributable to equity holders of the Company.

The Group and the Company are not subject to externally imposed capital requirements for the financial years ended 31 July 2018 and 31 July 2017.

Analysis of Shareholdings as at 16 October 2018

ISSUED AND FULLY PAID-UP CAPITAL	:	S$33,278,673
NO. OF SHARES ISSUED	:	25,812,520
CLASS OF SHARES	:	ORDINARY SHARES
VOTING RIGHTS	:	1 VOTE PER SHARE
NO. OF TREASURY SHARES	:	NIL

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHARES
1 - 99	11	1.45	290	0.00
100 - 1,000	248	32.67	135,293	0.52
1,001 - 10,000	382	50.33	1,429,301	5.54
10,001 - 1,000,000	112	14.76	6,476,311	25.09
1,000,001 & ABOVE	6	0.79	17,771,325	68.85
TOTAL	759	100.00	25,812,520	100.00

SHAREHOLDINGS IN THE HANDS OF THE PUBLIC AS AT 16 OCTOBER 2018

The percentage of shareholdings in the hands of the public was approximately 32.68% and hence the company has complied with Rule 723 of the New SGX-ST Listing Manual which states that an issuer must ensure that at least 10% of its listed securities is at all time held by the public.

TOP TWENTY SHAREHOLDERS AS AT 16 OCTOBER 2018

NAME OF SHAREHOLDERS	NO. OF SHARES	% OF SHARES
KAH HONG PTE LTD	4,670,830	18.10
CEPHEUS CORPORATION PTE LTD	4,502,430	17.44
KHONG GUAN GROUP PTE LTD	3,698,465	14.33
HONG LEONG FINANCE NOMINEES PTE LTD	2,000,000	7.75
KHONG GUAN DEVELOPMENT PTE LTD	1,641,600	6.36
INTER-OCEAN SHIPPING & TRADING PTE LTD	1,258,000	4.87
UNITED OVERSEAS BANK NOMINEES PTE LTD	700,000	2.71
CGS-CIMB SECURITIES (S'PORE) PTE LTD	614,400	2.38
NG KIM HOCK OR GOH LAY ENG	337,200	1.31
CITIBANK NOMINEES S'PORE PTE LTD	330,200	1.28
PHILLIP SECURITIES PTE LTD	312,005	1.21
DBS NOMINEES PTE LTD	221,640	0.86
GTK INVESTMENT (S) PTE LTD	214,000	0.83
NG SOO GIAP OR CHEW SOOI GUAT	210,700	0.81
CHEW SOO ENG	201,666	0.78
CHUA PANG	184,000	0.71
TAN KHIOK KWEE	171,700	0.66
WANG TONG PENG @ WANG TONG PANG	141,000	0.55
CHONG SHEE JAN	124,800	0.48
THIA CHENG SONG	123,000	0.48
TOTAL	21,657,636	83.90

Analysis of Shareholdings as at 16 October 2018

SUBSTANTIAL SHAREHOLDERS

	DIRECT INTEREST		DEEMED INTEREST	
NAME OF SHAREHOLDERS	NO. OF SHARES	%	NO. OF SHARES	%
CEPHEUS CORPORATION PTE LTD	5,152,430	19.96	3,694,465 *1	14.31
KAH HONG PTE LTD	4,670,830	18.10	3,694,465 *2	14.31
KHONG GUAN GROUP PTE LTD	3,694,465	14.31	—	—
KHONG GUAN DEVELOPMENT PTE LTD	1,641,600	6.36	—	—
GOH TEE KIA	661,000	2.56	2,548,000 *3	9.87
GTK HOLDING PTE LTD	1,700,000	6.59	250,000 *4	0.97
JIA FENG LIMITED	—	—	3,694,465 *5	14.31

Notes:

*1 Cepheus Corporation Pte Ltd is deemed to be interested in the 3,694,465 shares held by Khong Guan Group Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

*2 Kah Hong Pte Ltd is deemed to be interested in the 3,694,465 shares held by Khong Guan Group Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

*3 Mr Goh Tee Kia is deemed to be interested in the 200,000 shares held by G & C General Contractors Pte Ltd,1,700,000 shares held by GTK Holding Pte Ltd, 414,000 shares held by GTK Investment (S) Pte Ltd, 50,000 shares held by GTK F&B Pte Ltd and 184,000 shares held by Madam Chua Pang (wife) by virtue of the provision of Section 7 of Companies Act, Cap. 50.

*4 GTK Holding Pte Ltd is deemed to be interested in the 200,000 shares held by G & C General Contractors Pte Ltd and 50,000 shares held by GTK F&B Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

*5 Jia Feng Limited is deemed to be interested in the 3,694,465 shares held by Khong Guan Group Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

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KHONG GUAN LIMITED

Company Regn. No. 196000096G
Incorporated in the Republic of Singapore
Registered Office:
2 MacTaggart Road #03-01, Khong Guan Building Singapore 368078

Important:
1. For investors who have used their CPF monies to buy Khong Guan Limited shares, this Annual Report is sent to them at the request of their CPF Approved Nominees solely FOR INFORMATION ONLY.
2. This Proxy Form is FOR USE ONLY BY MEMBERS whose shares in Khong Guan Limited are registered in their names. It is not valid for use by CPF investors and persons whose shares are not registered in their own names, and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM

I/We ______________________ (Name) ______________________ (NRIC/Passport No.)

of ____ (Address)

being a member/members of Khong Guan Limited ("the Company"), hereby appoint:

Name	Address	NRIC/Passport No.	Proportion of Shareholdings	
			No. of Shares	%
and/or (delete as appropriate)				

or failing him/her/them, the Chairman of the Annual General Meeting ("AGM") of the Company as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the AGM to be held at its office at 2 MacTaggart Road #04-01, Khong Guan Building, Singapore 368078 on Wednesday, 28 November 2018 at 11.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

(Please indicate with an 'X' in the space provided whether you wish your vote(s) to be cast for or against the Resolutions set out in the Notice of AGM. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit).

No.	Resolutions	For	Against
1.	To adopt Reports and Financial Statements		
2.	To declare Dividend		
3.	To approve Directors' Fees		
4.	To re-elect Mr Tay Kwang Lip Willie		
5.	To re-elect Mr Chew Kian Boon Daniel		
6.	To re-elect Mr Yeo Jih-Shian		
7.	To re-appoint an Independent Auditor		
8.	To renew the shareholders' mandate for interested person transactions		
9.	To approve the proposed Share Issue Mandate		

Dated this ______________ day of ____________________ 2018.

Total No. of Shares in:	No. of Shares
(a) Register of Members	
(b) Depository Register	

Signature(s) of Member(s)/Common Seal of Corporate Shareholder

IMPORTANT
Please read Notes on the reverse.

Notes:

1. Please insert in the box at the bottom left hand corner of this form, the number of Shares registered in your name in the Register of Members in respect of share certificates held by you and the number of Shares entered against your name in the Depository Register maintained by The Central Depository (Pte) Limited ("CDP"). If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act (Chapter 50 of Singapore).

3. A proxy need not be a member of the Company.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the AGM.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 2 MacTaggart Road #03-01 Khong Guan Building, Singapore 368078, not less than 48 hours before the time fixed for holding the AGM.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

7. A corporation which is a member may also authorize by resolution of its directors or other body such person as it thinks fit to act as its representative at the meeting in accordance with Section 179 of the Companies Act, Chapter 50.

8. The Company shall be entitled to reject this instrument of proxy if it is incomplete, not properly completed or illegible or where the true intentions of the appointer are not ascertainable from the instructions of the appointer specified in this instrument appointing a proxy or proxies. In addition, in the case of members whose Shares are entered against their names in the Depository Register, the Company may reject any instrument of proxy lodged if such member is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time fixed for holding the AGM as certified by CDP to the Company.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agent or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines (collectively, the "Purposes"), and (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representatives(s) to the Company (or its agent or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

KHONG GUAN
LIMITED