



(Company Reg. No. 196000096G)

SUSTAINABILITY REPORT FOR FINANCIAL YEAR ENDED 31 JULY 2018

Chairman's Letter

We are pleased to present Khong Guan Limited's (KGL) inaugural Sustainability Report for our financial year ended 31 July 2018. This report is set out on a "comply or explain" basis in accordance with Rule 711B and Practice Note 7.6 of the Singapore Exchange Securities Trading Limited (SGX-ST) Listing Manual on Continuing Listing Obligations. KGL has chosen the Global Reporting Initiative (GRI) framework as it is the most established international sustainability reporting standard and in respect of the extent to which such framework is applied, this report has been prepared in accordance with the Global Reporting Initiative (GRI) reporting guidelines, at Core level. Corresponding to GRI's emphasis on materiality, the report highlights the key environmental, social and governance related initiatives carried out throughout a 12-month period, from 1 August 2017 to 31 July 2018.

In defining our reporting content, we applied the GRI's principles for defining report content by considering the Group's activities, impacts and substantive expectations and interests of its stakeholders. We observed a total of four principles, including materiality, stakeholder inclusiveness, sustainability index and completeness. For reporting quality, we observed the principles of balance, comparability, accuracy, timeliness, clarity and reliability.

The ESG data and information provided have not been verified by an independent third party. We have relied on internal data monitoring and verification to ensure accuracy.

We welcome feedback from our stakeholders with regards to our sustainability efforts as this enables us to improve our policies, systems and results. Please send your comments and suggestions to enquiries@kg.com.sg

Board Statement on Sustainability

Recognising the importance of sustainability, KGL has a Sustainability Committee that leads sustainability efforts throughout the Group. The Sustainability Committee reports directly to the Board which has considered sustainability issues as part of its strategic formulation, determined the material environmental, social and governance (ESG) factors and has overseen the management and monitoring of these factors.

KGL is always adapting to key stakeholders' concerns, closing any potential gaps and capitalizing on given opportunities. KGL's board is fully committed in supporting the management in upholding governance and sustainability practices to achieve long-term success and value for its stakeholders.

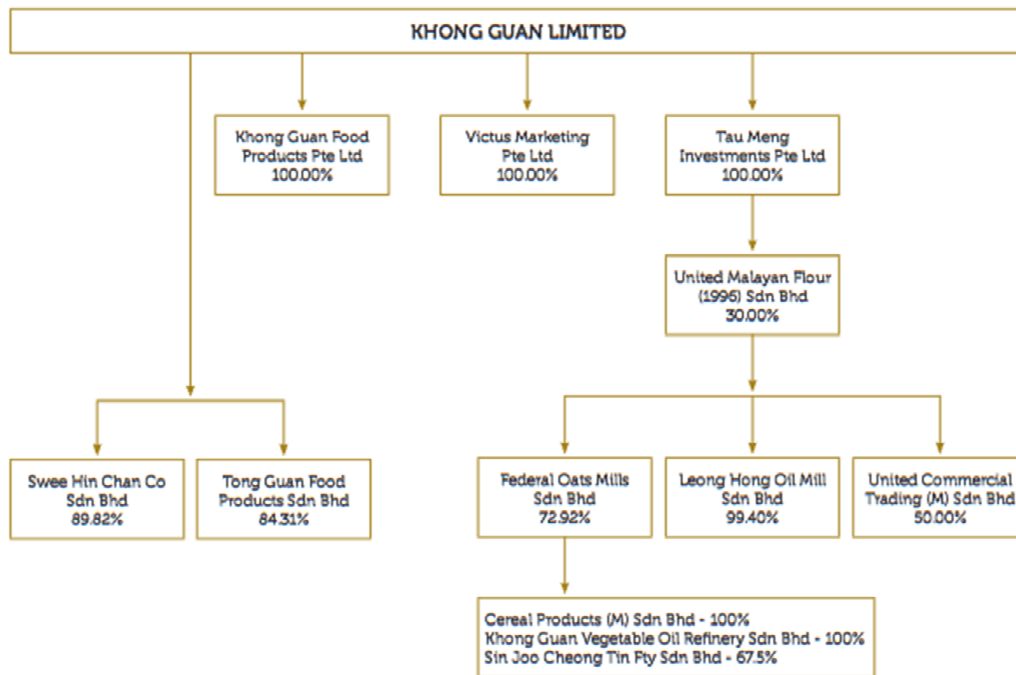
Sustainability Governance

At KGL we believe that strong governance is the key to a sustainable business. Throughout the 2018 financial year we have continued to comply with our Code of Corporate Governance. Please refer to the Financial Statements pages 10 - 21 on the details of the SGX Code of Corporate Governance.

Our products and services meet all the requirements demanded by our customers and the regulatory bodies. We meet all environmental and safety standards that are expected of us.

KGL pays strict attention to enforce good labour practices in all our operations. The company provides many training opportunities for continued employee development and this is reflected in our loyal workforce, many of whom have been with us for long periods of time as well as the quality and delivery of our products and services. We value our relationships with our clients and the wider community in which we operate and these relationships have helped us through challenging times in the past. KGL strongly believes that in the long run, these efforts will have a positive impact on our economic performance.

Organizational Chart



About our Business

Khong Guan Limited (KGL, The Group) encapsulates a thriving trading and distribution business in Malaysia dealing in fast-moving consumer goods (FMCG) products and food ingredients through its subsidiary holdings in Tong Guan Food Products Sdn Bhd (TGF) and Swee Hin Chan Company Sdn Bhd (SHC), as well as in its 30% equity held associate in United Malayan Flour (1996) Sdn Bhd (UMF), a diversified group dealing in wheat flour, oatmeal, pulses, cooking oils, cereals and other investments.

In our inaugural report, we will focus on KGL's subsidiaries, Swee Hin Chan (SHC) and Tong Guan Food Products (TGF); as well as its associate, United Malayan Flour (UMF), and in turn, UMF's subsidiary, Federal Oat Mills (FOM), as together these business units form the majority of our economic activity.

The Group has a diversified portfolio of products and exports to over 30 countries worldwide.

SHC is an established and renowned importer and distributor of high quality flour and starches and has been in business for more than a century in the region. Steeped in tradition yet

enterprising, SHC has built a proven track record of delivering high quality flour and starch products with value pricing and reliable service.

Our products supplied including wheat flour and starches are halal certified by Jakim. Today, SHC's starch business is one of the market leaders in Malaysia.

TGF was incorporated in March 1973, and commenced its business as an importer and distributor of flour and biscuits. KGL owns 84.31% of TGF. It has been entrusted with the responsibility of marketing the rapidly expanding range of products for the Group in Sabah.

Today TGF has grown into a full-fledged trading house that markets and distributes renowned consumer products such as foodstuff and household products to the entire state of Sabah. The range includes biscuits, snacks & candies, canned food, beverages, household, oral and personal care items produced by many leading international manufacturers. A large sales force is supported by branch offices in all major towns that services more than 3,000 retail outlets. This dedicated sales force spread across its branches ensures a smooth and effective operations at all times.

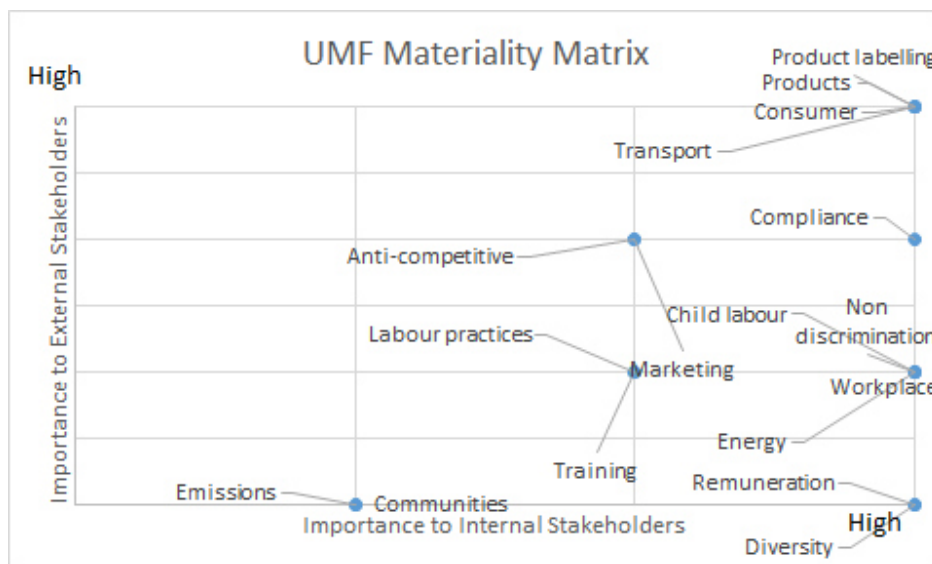
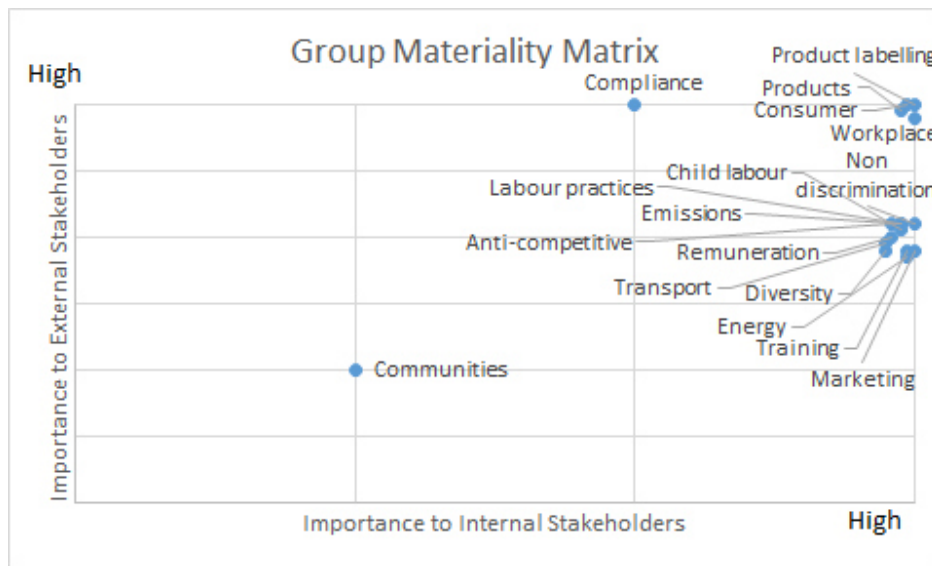
TGF has been importing and distributing brands and products for over 40 years in Sabah, from cities to small towns and villages to supermarkets, mini-markets, retail shops, hotels, modern F&B outlets, coffee shops, roadside stalls, and to other businesses. Our distribution strength has helped our principal partners' brands to reach all corners of Sabah.

The Group and all its subsidiaries have always focused on product safety and compliance to bring our consumers quality goods. We have long focused on developing our human resources to ensure sustainable economic performance. Today, these values serve us well as we proudly present our inaugural sustainability report.

Management Approach

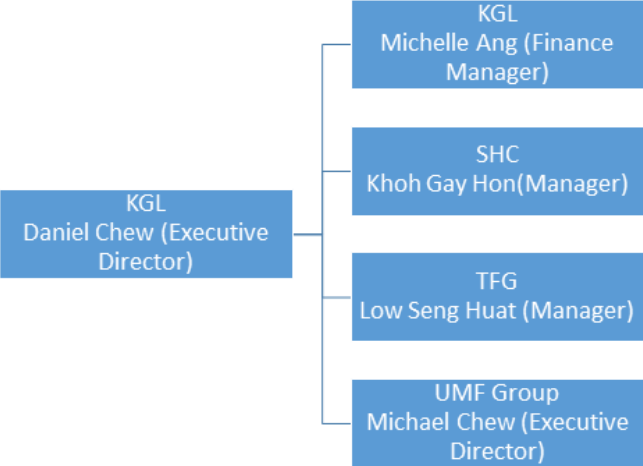
In preparation for this inaugural sustainability report, the Group initiated a thought exercise with senior staff and external stakeholders at KGL, TGF and SHC to determine what values each find important today and visualised these concerns on a Materiality Matrix that maps against new sustainability targets that we will have going forward. Our sustainability team is made up of representative of each main area of the business.

A separate, similar exercise was conducted at UMF.



The Group has designated a Sustainability Committee made up of sustainability officers in its subsidiaries SHC and TGF and two sustainability officers in the case of KGL itself which will work to further refine and develop our sustainability efforts going forward. UMF also has one designated sustainability officer. Please see the diagram for the Sustainability Committee below.

Sustainability Committee



Engagement of Key Stakeholders

The Group is committed to engaging all of our stakeholders as part of our continued sustainability endeavors. We view stakeholder engagement as a continual process, not a one-off event that ends when this report is printed. We engage with our stakeholders in a variety of formal and informal settings from the annual general meeting to ongoing dialogue with our partners and suppliers on how to improve our products. Our consumer facing brands in particular, such as FOM, have an enhanced focus on listening to our consumers, all our operations continually engage with local and national government to ensure we stay abreast of any concerns and legal developments. We listen to our employees and engage in trade groups in our day to day business.

Corporate Governance and Risk Management

Please refer to our Risk Management Policies and Processes in accordance with the SGX Code of Corporate Governance on pages 10 - 21 of our financial statements for the financial year ended 2018 for further details.

Market Presence

The key strength of TGF is the strength of our distribution network across all major towns in Sabah. We supply and deliver a wide range of basic food products such as flour, cooking oil, dairy products and enable our customers to enjoy the ease of having a single supply source for

the majority of their food products. Building on this strength the Company is now expanding into non-food products for our existing base.

Environmental

Energy and Water

The Group will continue to monitor electricity and water usage to ensure they do not vary greatly from the previous year. Currently the electricity and water usage cost is not deemed material in our business and will not expect it to vary greatly from year to year.

Transport

The Company has a network of carefully selected outsourced transport partners for goods delivery which has been proven to optimise resources and minimises delivery costs.

Social

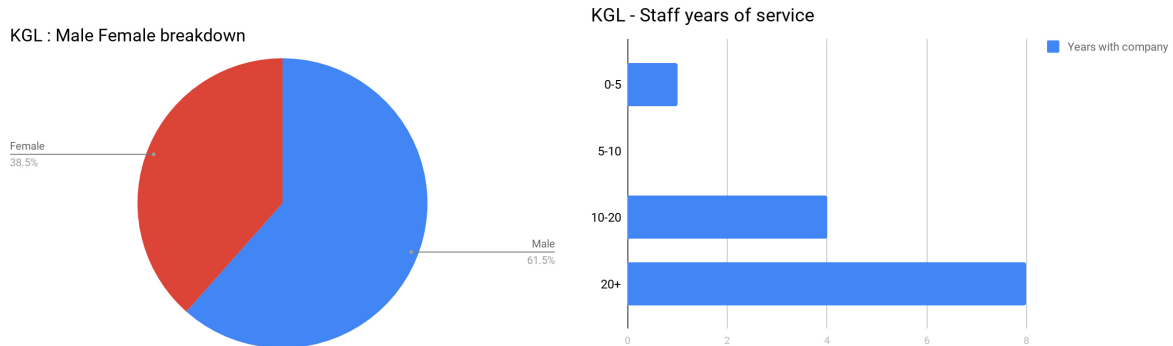
Labour Practices and Decent Work

The Group does not condone and does not tolerate corruption or child labour in any form. All subsidiaries, including TGF and SHC, are expected to adhere to these same policies and we expect the same of all our business partners.

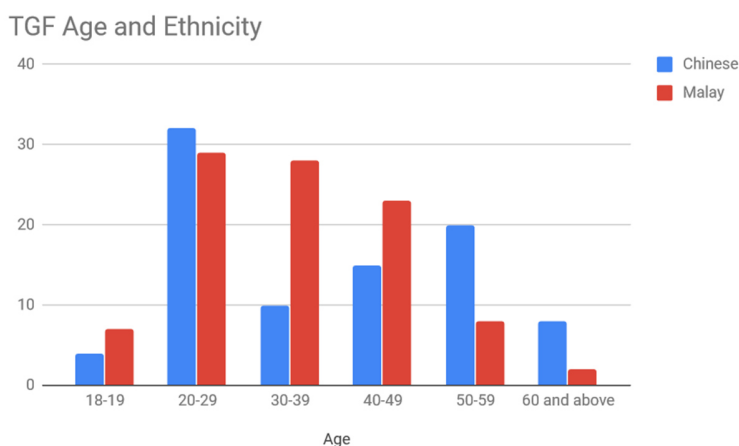
The Group provides maternity leave for female staff in according with the law. KGL in Singapore, provides 12 weeks of paid maternity leave (16 for Singapore nationals) for female staff. For our other business units in Malaysia it is 60 days paid maternity leave.

Employment

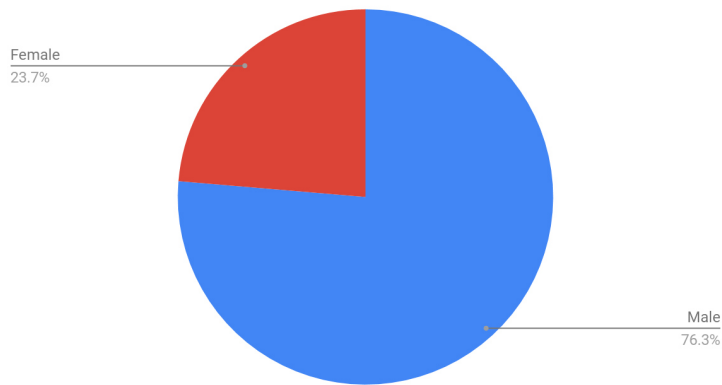
KGL has a total of 13 employees of which eight are male and five female. All but one of our employees have been with the company for more than ten years and eight of them have been with KGL for more than 20 years. These numbers prove that our employees are loyal and happy with life-long employment at KGL where we treat them as part of the family. Ethnically, 12 employees are Chinese and one is Malay.



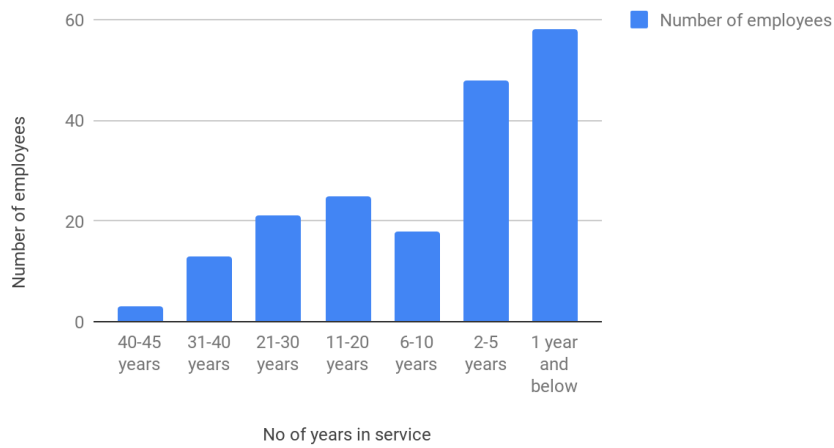
TGF has a total of 186 employees. The company is proud of its diverse employees and in particular in the length of service. Many of our employees expect to be with us for life and 62 of our employees have been with the company for more than 10 years. Indeed, with 37 being with us for more than 20 years, the level of employee satisfaction is something we are very proud of.



TGF: Male Female breakdown

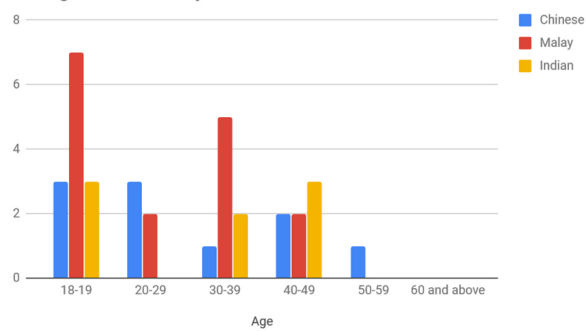


TGF Employees years in service

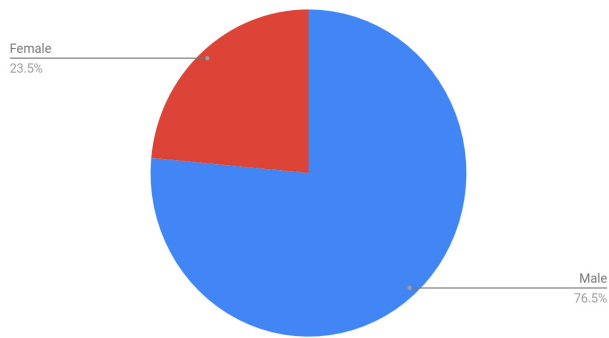


SHC has a diverse group of 34 employees.

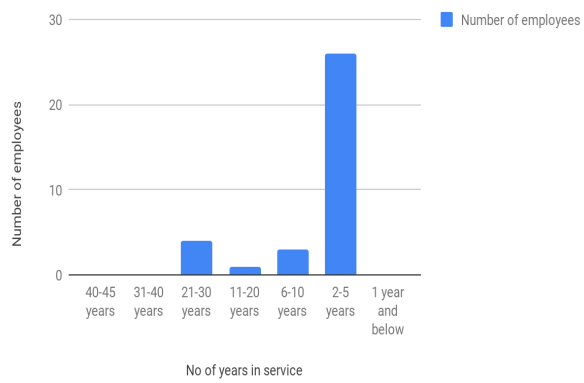
SHC Age and Ethnicity



SHC: Male Female breakdown

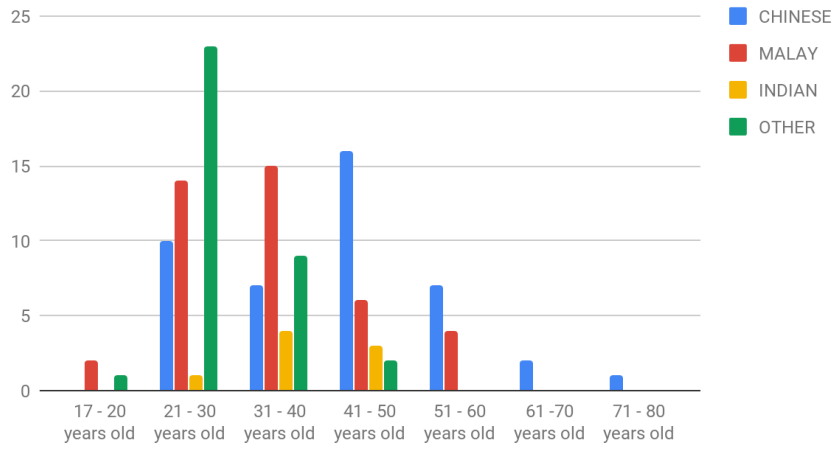


SHC Employees years in service

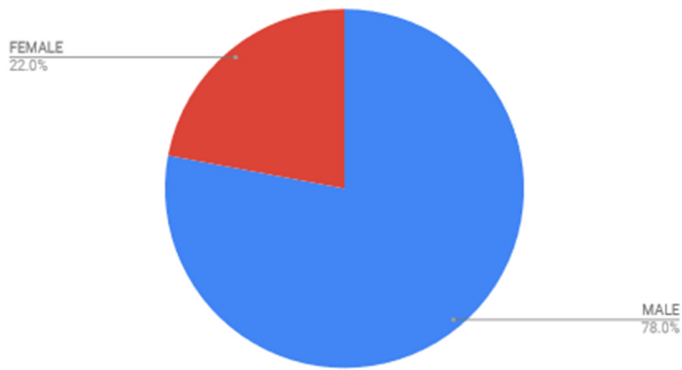


UMF has a diverse group of 127 employees.

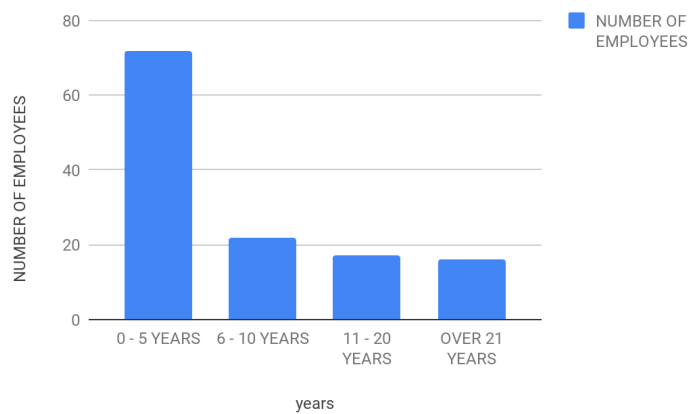
UMF age and ethnicity



UMF: Male Female breakdown

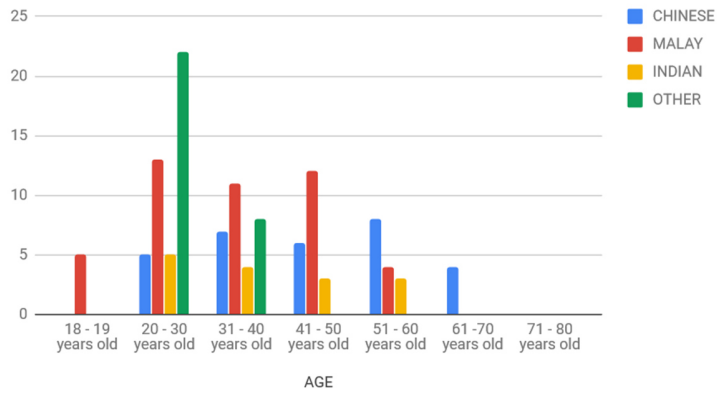


UMF Employee length of service

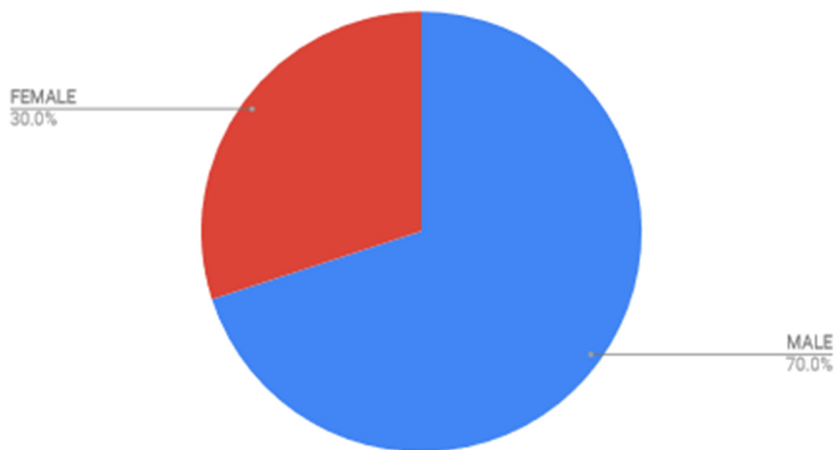


FOM has 120 diverse employees.

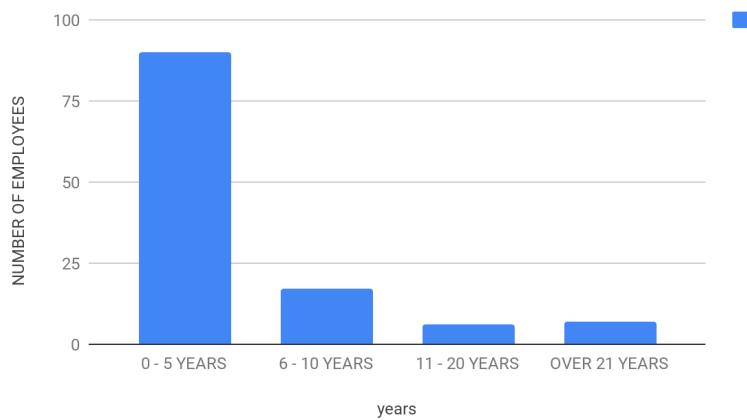
FOM Employee age and ethnicity



FOM: Male Female breakdown



FOM employee length of service



Occupational Health and Safety Training and Education

KGL does not have a formal internal training program for its staff. It does however send its staff for seminars and courses to keep abreast of the latest developments, especially on financial and regulatory aspects.

At TGF, there is no formal internal training programme for new or current employees except on new product briefings. However, the small size of the organisation means that the company's principals can effectively share data with employees on the job training on an adhoc basis when and where required. TGF has an annual training for fire safety on the warehouse conducted by the Company that provide Tong Guan's fire safety certification as required by the local Fire Brigade Department.

SHC provides on-demand on the job training with senior staff.

UMF had 16 formal off-site training courses for eight of its employees in FY2018. UMF also ran internal training programmes focusing on internal audit (10 staff, 14 hours) and three courses on preventative maintenance (21 staff for 14, 7 and 7 hours). The UMF Group applies for and receives funds from Malaysia's Human Resource Development Fund (HRDF) for training of our staff.

Diversity and Equal Opportunity

The Group has a non-discriminatory and equal opportunity employment hiring practice. Since beginning our sustainability reporting we are aware of our legacy imbalances and will continuing monitoring them carefully going forward.

Labour Practices and Grievance Mechanisms

The Group has a clear labour grievance procedure. Any affected staff can raise concerns with their Head of Department, (HOD) and HOD will forward the matter to management if required.

All employees are subject to an annual performance review and are given constructive feedback for their further development.

Child Labour & Forced or Compulsory Labour

We will not tolerate the use of child labour, nor exploitation of children, in any of our operations and facilities. Child labour, as defined by the International Labour Organisation (ILO) Convention is "work by children under the age of 12; work by children under the age of 15 that prevents school attendance; and work by children under of age of 18 that is hazardous to the physical or mental health of the child".

We shall not employ children that falls into the definition as stipulated by ILO Convention.

We do not do business with partners who do not share our views on zero tolerance for child labour.

The company is committed to ensuring that there is no forced or compulsory labour in any part of our business and in our supply chain partners. We are committed to ethical and responsible dealings in our business relationships and going forward we will be implementing systems and controls to ensure that no forced or compulsory labour is taking place anywhere in our supply chains.

Indigenous Rights

The Group supports indigenous rights and we monitor the ratio of indigenous / Bumiputera in our workforce.

As of June 2018, just under half (16 of 34) of SHC's staff are ethnic Malays and more than half (97 of 186) of TGF employees are ethnic Malay.

Supplier Environmental and Labour Assessment

Currently TGF and SHC does not do any formal supplier assessment. However, we are designing questionnaires and will roll them out in the near future to formalise the procedures.

UMF and FOM currently have a detailed supplier questionnaire that covers safety, accreditation, traceability, safety of containers and ink used for labelling among other things. Going forward the group will expand these questionnaires to cover human rights and other sustainability concerns.

Anti-corruption Policies and Procedures

We shall not engage in bribery or any form of financial crime. We must never offer, promise or give bribes in connection with our business and we must never ask for or accept bribes. At KGL, we have company policies that all employees are made aware of on the anti-corruption policies and procedures.

Society

Local Communities

While KGL, TGF and SHC do not have any formal CSR programmes, we often step up to support local communities on an ad-hoc basis.

However, as one of Malaysia's leading consumer-facing brands, UMF's fully-owned subsidiary Federal Oat Mills ("FOM") has a robust and high-profile charitable presence. In FY2018, FOM donated over 50,000 Ringgit Malaysia to the National Heart Institute (Institut Jantung Negara, "IJN") with the fund being used to help fund surgery for children with heart ailments. FOM also provides free oatmeal products to those who attend IJN for heart checkups. FOM has become a gold partner to the non-profit IJN by pledging 50,000 RM a year over the next three years.

FOM also sponsored a health check-up for 200 residents of the Kimsar Garden community in Prai, Malaysia; a cleanup project in the Penang National park and the 7 km Ipoh Starwalk annual health walk.

Consumer Health and Safety

As a foods and household product company we need to take product responsibility and consumer health and safety very seriously. One mishap can damage our reputation that has taken decades to build up to what it is today.

Product and Service Labelling

The Group complies with the numerous product labelling laws for the consumer goods and foods industries that we operate in. Clarity and accuracy of product labelling was actually the highest ranked concern in all our ESG surveys for both internal and external stakeholders.

Compliance

TGF has the following certifications: HACCP, ISO, GMP, HALAL, MERST. TGF is also licensed to carry out its business on basic commodities products such as sugar, rice and cooking oil. The Company is also licensed by Ministry of Health to sell certain medications that are under the Scheduled Prescription Drugs.

SHC has HALAL certification. SHC is in the process of obtaining MESTI application.

UMF has HALAL certification and ISO 22000:2005 certification.