

KHONG GUAN
LIMITED

2020 Sustainability Report

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Board Statement

The Board is pleased to present our third Sustainability Report (the “Report”) for Khong Guan Limited (“KGL”) and its subsidiaries, and associates (the “Group”), for the financial year ended 31 July 2020 (“FY2020”).

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. This Report has been prepared in accordance with the Global Reporting Initiative’s (“GRI”) guidelines, at “Core” option. Corresponding to GRI’s emphasis on materiality, the Report highlights the key environmental, social and governance related initiatives carried out by the Group from 1 August 2019 to 31 July 2020.

In defining our reporting contents, we have applied the GRI principles by considering the Group’s activities and its impact as well as expectations and interests of our stakeholders. We observe the following four principles: materiality, stakeholder inclusiveness, sustainability index and completeness. For reporting quality, we observed the principles of balance, comparability, accuracy, timeliness, clarity and reliability. The Environment, Sustainability and Governance (“ESG”) data and information provided have not been verified by an independent third party. The data has been obtained from reports generated from our internal accounting systems and we have relied on internal data monitoring and verification to ensure accuracy.

During this period of great uncertainty amidst the Coronavirus pandemic, the Board, has in its review of operations, concluded that Occupational Health and Safety of our employees is key in ensuring the continued growth and sustainability of our operations.

As we continue on our sustainability journey, the Board is committed to further incorporating sustainability initiatives into our business decisions, assuring our stakeholders of our commitment in conducting our business in a transparent and sustainable way.

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

BOARD OF DIRECTORS
31 July 2020

Sustainability Governance

At KGL we believe strong governance is the key to a sustainable business. Throughout FY2020, we continue to comply with the Singapore Exchange (“SGX”) Code of Corporate Governance. Please refer to the Financial Statements as set out in our Annual Report for FY2020 for further details.

As part of our Group’s commitment, our products and services continue to meet all the requirements of our customers and the regulatory bodies of the countries we operate in. We work towards having all our products meet all the environmental and safety standards that are expected of us.

The Group has procedures in place to enforce good labour practices in all our operations. We also continue to provide training opportunities for continuous employee development. The results are a loyal workforce, many of whom have been with us for decades, as well as the quality and delivery of products and services. We strongly believe that in the long run, good labour practices will have a positive impact on our economic performance. We value our relationships with our clients and the wider community in which we operate. These relationships have benefited us in the past and will continue to aid us while we operate during the COVID-19 pandemic.

Corporate Profile

The Group, which comprises KGL and its subsidiaries, together with the Group’s associate, possesses a thriving trading, distribution and manufacturing businesses in Malaysia dealing in Fast-Moving Consumer goods (“FMCG”) products and food ingredients. These are operated through holdings in our subsidiaries Tong Guan Food Products Sdn Bhd (“TGF”) and Swee Hin Chan Company Sdn Bhd (“SHC”). In addition, our 30% equity held associate, United Malayan Flour (1996) Sdn Bhd (“UMF”) is a diversified group mainly dealing in the production and sale of wheat flour, oatmeal, pulses, cooking oils and cereals

This Report focuses on KGL’s subsidiaries SHC and TGF as well as our associate, UMF; and in turn, UMF’s subsidiary, Federal Oats Mills Sdn Bhd (“FOM”). Together, these business units contribute to the majority of our economic activities and/or financial results. Please refer to the group chart below showing the relationships of the subsidiaries and its associate.

Khong Guan Limited Group Chart

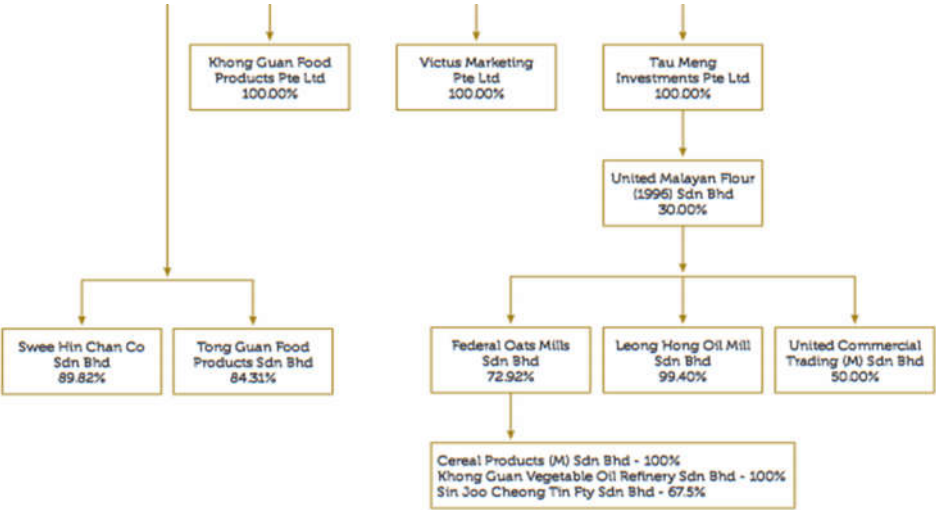


Diagram 1: KGL Group Chart

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

Our subsidiary, SHC, is an established and renowned importer and distributor of high-quality flour and starches. 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 services.

Our wheat flour and starch products are *halal* certified by Jabatan Kemajuan Islam Malaysia (“JAKIM”). JAKIM is the agency responsible for the Islamic affairs including *halal* certification of products required by Shariah laws in Malaysia. Today, SHC’s starch business is one of the market leaders in Malaysia.

Our subsidiary, TGF, was incorporated in March 1973, and commenced business as an importer and distributor of flour and biscuits. It was entrusted with the responsibility of marketing our wide range of products in the state of Sabah.

Today, TGF has grown into a full-fledged trading house that markets and distributes consumer products, such as foodstuffs and household products, from a variety of renowned brands, throughout the entire state of Sabah. A large sales force supports TGF’s branch offices in all major towns of Sabah, servicing more than 3,000 retail outlets. This dedicated sales force ensures that our branches are able to operate smoothly and effectively.

TGF has been importing and distributing products from renowned brands for over 40 years in Sabah, from cities to small towns and villages through outlets such as supermarkets, mini-markets, retail shops, hotels, modern food and beverage outlets, coffee shops and roadside stalls. Our market reach has helped our principal partners’ brands to reach many corners of Sabah.

Our associate, UMF, through its majority owned subsidiary, FOM, continues to generate growth from its key consumers who are more health conscious. FOM’s Oats products are seen as an economical choice for consumers. As such, our Oats products are now exported to consumers around the Asia Pacific region and parts of the world.

The Group will continue to focus on product safety and compliance with local laws and regulations to bring our consumers quality products and services. We have also long focused on developing our human resources to ensure sustainable economic performance. Today, these values serve us well as we proudly present our Report.

Markets Served

The Group, through its subsidiaries, is involved in the trading and distribution businesses in Malaysia. These subsidiaries supply FMCG and food ingredients. The Group's 30% associate, UMF, is a diversified group dealing in the manufacture and sale of wheat flour, oatmeal, pulses, cooking oils and cereals and other investments. The UMF group currently exports to over 30 countries in Asia, the Middle East, and Africa.

In Singapore, the Group continues to supply good quality wheat flour from UMF's wheat flour mill in Penang, Malaysia, to local food manufacturers and bakeries.

Supply Chain

The Group's main manufacturing footprint is made through its 30% associate, UMF, which has a wheat grain processing operation. UMF works with selected, reliable grain merchants with a track record of providing quality and reliable supply of grains in order to provide our customers, whether consumers or food manufacturers, with quality products.

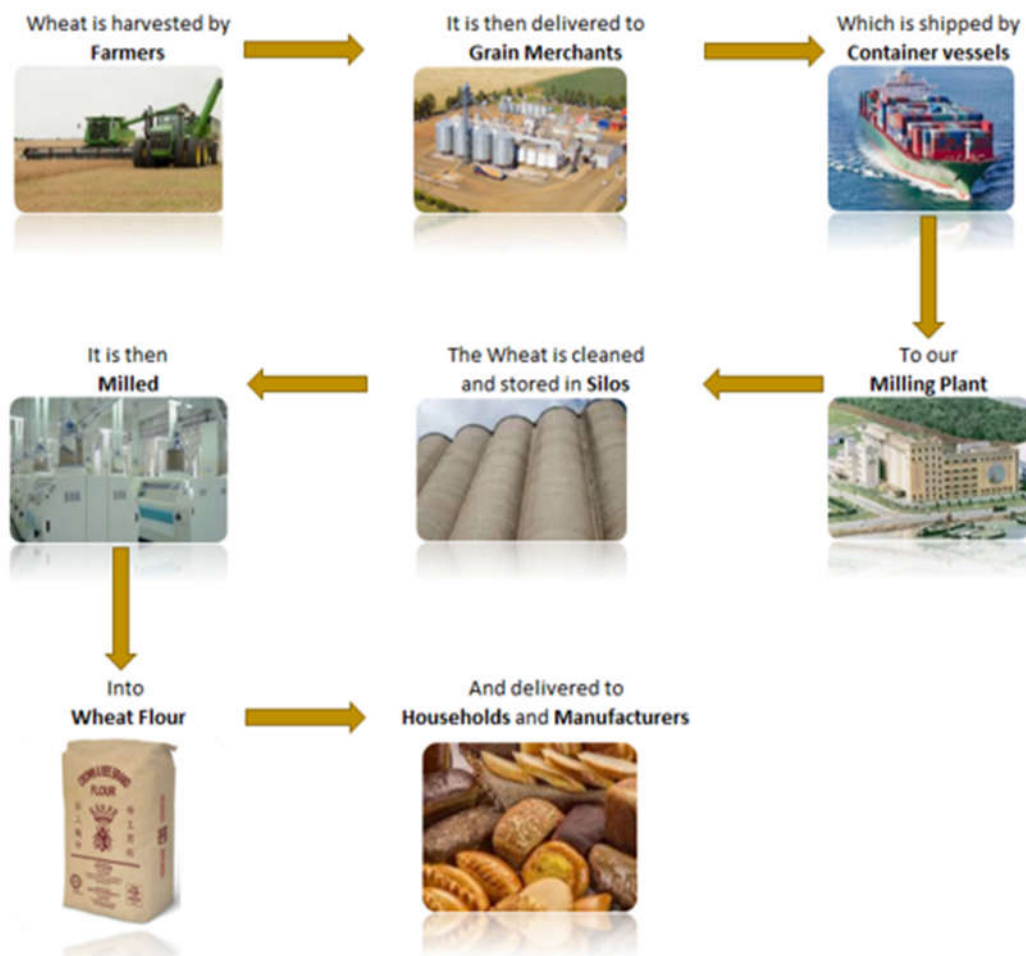


Diagram 2: Supply Chain of UMF, 30% Associate of KGL

Types of Customers

Products manufactured by UMF and other products distributed by the Group serve both households as well as food manufacturers including but not limited to bakeries, confectionaries, noodle manufacturers and wholesalers.

UMF, through its subsidiary, FOM, continues to grow its Oats business under the “CAPTAIN OATS” brand as we observe more consumers are recognizing health benefits of consuming Oats as a part of their dietary requirements. On January 2020, FOM commenced operations at its newly commissioned and modern manufacturing facility in Butterworth, Malaysia.



Diagram 3: FOM’s new Oats Milling facility in Butterworth, Malaysia



Diagram 4: Captain Oats brand logo

Approach to Sustainability

The Group carries out an annual thought exercise with the senior staff and external stakeholders at KGL, TGF and SHC to determine what were values each entity found to be important, “visualized” these values and then mapped them against new sustainability targets that we would establish on a going forward basis.

Material Assessment was determined by the following steps :

- 1) Identification** of the list of ESG matters that are relevant to the operations of the Group.
- 2) Prioritization** of the ESG matters identified by representatives from the subsidiary and associate companies.
- 3) Validation** of the material matters identified by the subsidiary and associate companies, and presented to the Board for validation.
- 4) Review** of the Material matters approved by the Board will continue to be reassessed in the successive reporting in order to ensure that these matters remain relevant and material to our operations.

For FY2020, we have deemed the material matters identified in our previous reporting as still being relevant to the organization today. We have identified Occupational Health and Safety as a key material factor today in the midst of the COVID-19 pandemic.

Material ESG Factors



Diagram 5: Material Factors

Our sustainability team is made up of representatives from each key subsidiary of the Group. The Group has constituted a Sustainability Committee with one sustainability officer from each of its key subsidiaries: SHC and TGF, and two sustainability officers from KGL itself to further refine and develop our sustainability efforts. In addition, UMF works closely with KGL on its sustainability initiatives and efforts. Please see Diagram 3 for the “Composition of Sustainability Committee” below.

Composition of Sustainability Committee



Diagram 6: Composition of Sustainability Committee

Engagement of Key Stakeholders

The Group is committed to engage all our stakeholders as part of our continued sustainability endeavors. We view stakeholder engagement as a continual process. 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 and supply chains. We listen to feedback from our consumers regarding our products, including those under FOM, a subsidiary of UMF. Our operations as well as those under our associate, UMF, continually engages with relevant authorities to ensure we stay abreast of any concerns and legal developments. We also listen to our employees and engage with industry trade groups in our day-to-day business.

Below is a summary of the engagement platforms and its frequency with various key stakeholders.

Stakeholders	Engagement Platforms	Frequency of Engagement
Employees	Orientation training for new recruits Annual performance review and appraisals Team-building events Town hall sessions Electronic communication and notice board Virtual meetings	Throughout the year
Customers	Business review meetings Customer visits Virtual meetings	Throughout the year
Suppliers and Service Providers	Supplier surveys Business meetings with critical suppliers Supplier factory audit Virtual meetings	Throughout the year
Shareholders	Web portal & electronic mail Annual General Meeting (Virtual meeting for FY 2020) Annual Report for FY2020	Throughout the year Annually
Local communities	National events such as Singapore National Day. Donation drives.	Throughout the year
Local government	Participation in government agencies' seminars on policy updates On-site advisory visits Regular reports	Throughout the year

Material Assessment

Economic

Market Presence

SHC operates a network of distributors and manufacturers for starches, wheat flour and food products in Malaysia.

The key strength of TGF is the strength of our market reach through an extensive 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. The wide range of products we distribute enable our customers to enjoy the ease of having a single supply source for the majority of their food products. Building on this strength, TGF continues to expand upon the range of products we carry.

While UMF serves a wide clientele base from small-medium enterprises to large-scale multinational manufacturers through an extensive distribution network that spans the Peninsular and East Malaysia, as well as Singapore and Thailand. While its subsidiary FOM supplies quality Oat products to consumers around the region and various parts of the world.

Environmental

Energy and Water

Being a stakeholder in the environment in which we operate in, the Group will continue to monitor electricity and water usage to ensure these do not vary greatly from the previous year. We will continue to look for opportunities to increase energy efficiency and reduce water usage by educating our employees on how they can contribute positively to the environment at work as well as at home.

Lists of Memberships in Business Associations

The Group's companies are members of a number of associations of which most Singaporean and Malaysian businesses in the same sector are members too. These include business federations and food manufacturer's associations. In Singapore, these are the Singapore Business Federation ("SBF"), Food Manufacturers Association ("FMA") and Singapore Bakery & Confectionery Trade Association ("SBCTA"). In Malaysia, they are the Federation of Malaysian Manufacturers ("FMM"), and Malaysian Employers Federation ("MEF"). Through participation in these associations, we endeavour to contribute to the overall quality standards for products and services in the industry, where applicable, and ethics, sustainability of resources and other initiatives.

Transportation

The Group has a network of carefully selected outsourced transport partners for goods delivery which has been proven to enable it to optimize resources and minimize 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 from all our business partners. Our associate, UMF, also adopts similar policies.

The Group provides maternity leave for female staff in accordance with local labour laws. In Singapore, KGL provides 12 weeks of paid maternity leave for non-Singapore nationals, and 16 weeks for Singapore nationals. In Malaysia, SHC and TGF provide 60 days paid maternity leave for all eligible female staff.

Employment

The Group employed 256 personnel as of 31st July 2020. Details of employees within the Group for 2020 and 2019 are as follows :-

Key Group Companies in KGL	Number of employees as of 31 July 2020	Percentage	Number of employees as of 31 July 2019	Percentage
KGL	11	4.30%	13	5.53%
TGF	212	82.81%	184	78.30%
SHC	33	12.89%	38	16.17%
Total	256	100.00%	235	100.00%

The following table sets forth the number of employees of our associate, UMF.

UMF, 30% associate of KGL	Number of employees as of 31 July 2020	Percentage	Number of employees as of 31 July 2019	Percentage
UMF	129	100.00%	138	100.00%

TGF has seen an increase in new hiring in FY2020, largely in line with the approximately 10% increase in its revenue compared to the preceding year as it continues to expand its portfolio by taking on new FMCG products to add to and retain the existing portfolio that it carries.

Currently, the composition of our workforce from both TGF and SHC, as well as our associate UMF, in aggregate, is made up of approximately 75% male and 25% female.

Employee retention is of key importance to KGL and its subsidiaries and associate, as our employees have and continue to make significant contributions to the Group. We believe that our employees are largely happy with the prospect of life-long employment at the Group, where we continue to strive towards the ideals of a “family friendly” working environment.

Training and Education

The Group has internal processes to ensure operational risks are minimized and that all potential hazards are identified and precautions are taken.

Our Group companies have formal management meetings at least every quarter together with the health and safety committee in order to update workplace safety protocols. If there are new products or equipment to be launched or purchased, as the case may be, more management meetings will be held.

UMF conducts safety training programmes annually. These include safety personal protective equipment (PPE) training and fire drills. In addition, we have off-site training for our staff in more specialised areas such as planning for handling of chemicals and confined space operations.

In FY 2019, UMF conducted a combined 168 hours of training for of its personnel in areas covering plant and machinery, chemical handling, and ISO22000, labour law, and even multi-generational relationship management.

In FY 2020, training decreased to just under 60 hours. This was due to the high number of training sessions which were carried out in FY 2019, and for FY2020, the training was on HACCP systems, Halal procedures, and Fire Safety management.

UMF will continue to extend training for its personnel in relevant areas of their jobs.

For SHC and TGF, training continues to be mainly on the job training. There are plans going forward to incorporate more soft skill training for personnel.

Occupational Health and Safety

Access management

Access to the Group’s facilities and offices is granted via an access card system with visitors requiring visit permits. The access control system will only provide cards to new employees after job confirmation with the Group. New employees are registered as visitors prior to formal job confirmation. COVID-19 Response Protocols have also been incorporated into the access management at our subsidiaries, and associate, in Malaysia.

Ill-health related to work

The Group documents all workplace-related health-related incidents along with a medical report. The health and safety committee will study how to avoid a recurrence of an incident and if deemed

necessary, updated safety guidelines will be drafted by the committee for further dissemination and training.

Management strives to ensure that the health and safety of our employees is at the top of our priorities at every level of the Group. KGL and all its subsidiaries abide by government and industry health and safety regulations. We have adequate training for the workforce so that they may carry out their duties safely and confidently.

Environmental matters are among the issues KGL takes most seriously. The Group remains committed to minimizing our environmental impact in all areas of the Group’s operations while preserving and enhancing the quality of life for employees, customers and the communities in which we operate.

COVID-19 Safety and Response Protocols have been put in place at our subsidiary and associate companies operating in Malaysia

Workplace
1. Provision of temperature screening devices.
2. Provision of facemasks.
3. Provision of hand sanitizers.
4. Daily disinfection of common areas (production, door knobs and staircase handrails etc.).
5. Demarcation – 1 meter physical distancing.
6. Weekly submission SOP compliance report to MITI (Ministry of International Trade and Industry).
7. Updating of COVID-19-related information through announcements, posters, operation workers toolbox talks and safety bulletins.
8. Encourage virtual meetings with third parties.
9. COVID-19 Emergency Response Protocol.

Public Areas (eg. Canteen)

1. Demarcation – one meter physical distancing.

2. Break time segregation.

3. Canteen caterers serve food (not buffet style) and wear face shields and gloves.

4. Provision of hand sanitizers.

5. Daily disinfection of canteens.

Employee SOP

1. Temperature screening before entry into premises (at Guard house).

2. Fill health screening form (google form- administered by the relevant company).

3. Sanitize hand at entrance.

4. Wear facemask.

5. One meter physical distancing.

Visitor (Contractor / Supplier)

1. Temperature screening before entry into premises (at Guard house).

2. Fill health screening form (MySejahtera form and Visitor Entry manual form).

3. Sanitize hand at entrance.
4. Wear facemask.
5. Contractor’s foreign workers must attend COVID-19 test.
6. One meter physical distancing.

Labour Practices and Grievance Mechanisms

The Group has a clear labour grievance procedure. Any affected staff can raise concerns with their head of department which will be forwarded to higher management if required or through the Group’s whistle blowing procedures.

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

Diversity and Equal Opportunity

The Group has a non-discriminatory and equal opportunity employment hiring policy and will continue to monitor compliance with the policy carefully going forward.

Child Labour & Forced or Compulsory Labour

We do 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 and do not employ children that fall into the definition as stipulated by ILO Convention.

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

The Group 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. Going forward, we continue to strengthen adherence to our policy against child labour or exploitation of children.

Employment Policy

We do not practice discrimination in employment of staff. Our hiring policy is based on merit based, depending on the experience, competence and qualifications of the relevant candidates. We will closely monitor our managers for compliance with the aforesaid hiring policy.

Anti-corruption Policies and Procedures

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

Governance

Corporate Governance and Risk Management

Please refer to our Risk Management Policies and Processes in accordance with the Singapore Exchange's Code of Corporate Governance of our financial statements for FY2020 for further details.

Regulatory Compliance

Throughout FY2020, there have been no incidents of non-compliance with the socioeconomic goals, laws and regulations we have identified as relevant to the Group, which are described in more detail in this report (including the below-mentioned).

Practices to manage regulatory compliance

Laws and regulations relevant to our operations are mainly the Companies Act (Chapter 50) and Listing Rules of the Singapore Exchange, Securities and Futures Act (Cap. 289), The Singapore Code on Takeovers and Mergers and other industry specific laws and regulations. The Group believes in instilling its employees with a culture of compliance and a high standard of ethics in carrying out their duties. This would mitigate any non-compliance as we understand good governance would allow the Group to manage its risks and opportunities, and deliver sustainable returns or value for our stakeholders.

Employees

All employees are briefed on the Code of Ethics and Business Conduct, and the Whistleblowing policy during the orientation and induction programme. KGL and its subsidiaries receive regular updates from relevant authorities on changes to regulations, which are relevant to its operations. Staff members may also attend seminars to familiarise themselves with any such updates.

Developed and implemented a Board Assurance Framework with an Enterprise Risk Management Framework

The Group regularly review its operations to identify significant risks it faces, the potential impact and likelihood of such risks, and the effective action plans undertaken to mitigate those risks.

Results of Monitoring Effectiveness

The Audit Committee (“AC”) and the Board have reviewed the effectiveness of the Group’s internal controls

in relation to significant risks, including financial, operational, compliance-related controls, as well as the risk management system and found them to be adequate and effective as at 31 July 2020.

Perpetual Target

KGL aims to maintain “zero” incidents of non-compliance with laws and regulations.

Performance for FY2020

We have maintained “100%” compliance and “zero” incidence of reported non-compliance with rules and regulations relevant to its operations in FY2020. The Group will continue to strive to maintain this record.

GRI Checklist

GRI Standard Number	GRI Standard Title	GRI Disclosure Number	Disclosure Title	Reference/Description
GRI 102	General Disclosures	102-1	Name of the organization	Khong Guan Limited
GRI 102	General Disclosures	102-2	Activities, brands, products, and services	Annual Report 2020; Sustainability Report - About our Business
GRI 102	General Disclosures	102-3	Location of headquarters	Singapore
GRI 102	General Disclosures	102-4	Location of operations	Annual Report 2020
GRI 102	General Disclosures	102-5	Ownership and legal form	Annual Report 2020
GRI 102	General Disclosures	102-6	Markets served	Annual Report 2020; Sustainability Report - Market Presence
GRI 102	General Disclosures	102-7	Scale of the organization	Annual Report 2020; Sustainability Report - Employment
GRI 102	General Disclosures	102-8	Information on employees and other workers	Sustainability Report - Employment
GRI 102	General Disclosures	102-9	Supply chain	Sustainability Report - Supply Chain
GRI 102	General Disclosures	102-10	Significant changes to the organization and its supply chain	Sustainability Report - Supply Chain
GRI 102	General Disclosures	102-11	Precautionary Principle or approach	Khong Guan does not specifically address the precautionary approach
GRI 102	General Disclosures	102-12	External initiatives	Sustainability Report - Engagement of Key Stakeholders
GRI 102	General Disclosures	102-13	Membership of associations	Sustainability Report - Lists of Memberships in Business Associations
GRI 102	General Disclosures	102-14	Statement from senior decision-maker	Sustainability Report - Board Statement on Sustainability
GRI 102	General Disclosures	102-15	Key impacts, risks, and opportunities	Annual Report 2020; Sustainability Report - Governance
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	Sustainability Report - Sustainable Governance
GRI 102	General Disclosures	102-17	Mechanisms for advice and concerns about ethics	Sustainability Report - Labour Practices and Grievance Mechanisms
GRI 102	General Disclosures	102-40	List of stakeholder groups	Sustainability Report - Engagement of Key Stakeholders

GRI 102	General Disclosures	102-42	Identifying and selecting stakeholders	Sustainability Report - Engagement of Key Stakeholders
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	Sustainability Report - Engagement of Key Stakeholders
GRI 102	General Disclosures	102-44	Key topics and concerns raised	Sustainability Report - Material Factors
GRI 102	General Disclosures	102-45	Entities included in the consolidated financial statements	Sustainability Report - Khong Guan Group Chart
GRI 102	General Disclosures	102-46	Defining report content and topic boundaries	Sustainability Report - About our Business
GRI 102	General Disclosures	102-47	List of material topics	Sustainability Report - Material Factors
GRI 102	General Disclosures	102-50	Reporting period	1 August 2019 to 31 July 2020
GRI 102	General Disclosures	102-51	Date of most recent report	31 December 2019
GRI 102	General Disclosures	102-52	Reporting cycle	Annually
GRI 102	General Disclosures	102-53	Contact point for questions regarding the report	Sustainability Report - Chairman's Letter
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with the GRI Standards	Sustainability Report - Chairman's Letter
GRI 102	General Disclosures	102-55	GRI content index	Sustainability Report - GRI Checklist
GRI 102	General Disclosures	102-56	External assurance	None.
GRI 103	Management Approach	103-1	Explanation of the material topic and its Boundary	Sustainability Report - Management Approach
GRI 103	Management Approach	103-2	The management approach and its components	Sustainability Report - Management Approach
GRI 103	Management Approach	103-3	Evaluation of the management approach	Sustainability Report - Management Approach
GRI 403	Occupational Health and Safety	403-1	Evaluation of the management approach	Sustainability Report - Management Approach
GRI 419	Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	Sustainability Report - Socioeconomic Compliance