

# Khong Guan Limited



## 2019 Sustainability Report

## Message from the Board of Directors

We are pleased to present Khong Guan Limited's (KGL) Sustainability Report for our financial year ended 31 July 2019 (the "Report"). 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 GRI reporting 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 KGL throughout a 12-month period, from 1 August 2018 to 31 July 2019.

In defining our reporting content, we applied the GRI principles by considering the KGL Group's activities, impacts 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 ESG data and information provided have not been verified by an independent third party. Data has been obtained from reports generated from internal accounting systems and 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 will enable us to improve our policies, systems and results. Please send your comments and suggestions to [enquiries@kg.com.sg](mailto:enquiries@kg.com.sg)

## Board Statement on Sustainability

KGL recognizes the importance of sustainability and we have a Sustainability Committee that leads sustainability efforts throughout the group. The Sustainability Committee reports directly to the Board which considers sustainability issues as part of its strategic formulation, determines the material environmental, social and governance (ESG) factors and oversees the management and monitoring of these factors.

The Group is always adapting to key stakeholders' concerns, closing any potential gaps and capitalizing on any given opportunity. KGL's board is positively committed to support the management in upholding governance and sustainability practices to achieve long-term success and value for all our stakeholders.

## Sustainability Governance

At KGL we believe strong governance is the key to a sustainable business. Throughout the 2019 financial year, we continued to comply with the Singapore Exchange (SGX) Code of Corporate Governance. Please refer to the Financial Statements for further details.

As part of our commitments together with our subsidiaries and associates, our products and services meet all the requirements of our customers and the regulatory bodies of the countries being Malaysia and Singapore, 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, especially in KGL's 30% associate, United Malayan Flour (UMF), in place to enforce good labour practices in all our operations. We also provide many 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 our products and services. We strongly believe that in the long run, enforcing 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 and it is these relationships that helped us through challenging times in the past.

## About our Business

The Group, which comprises KGL and its subsidiaries possess a thriving trading and distribution business 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 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 Oat Mills (FOM). Together, these business units contribute to the majority of our economic activity and/or financial results. Please refer to the group chart below showing the relationships of the subsidiaries and its associates.

### Khong Guan Limited Group Chart

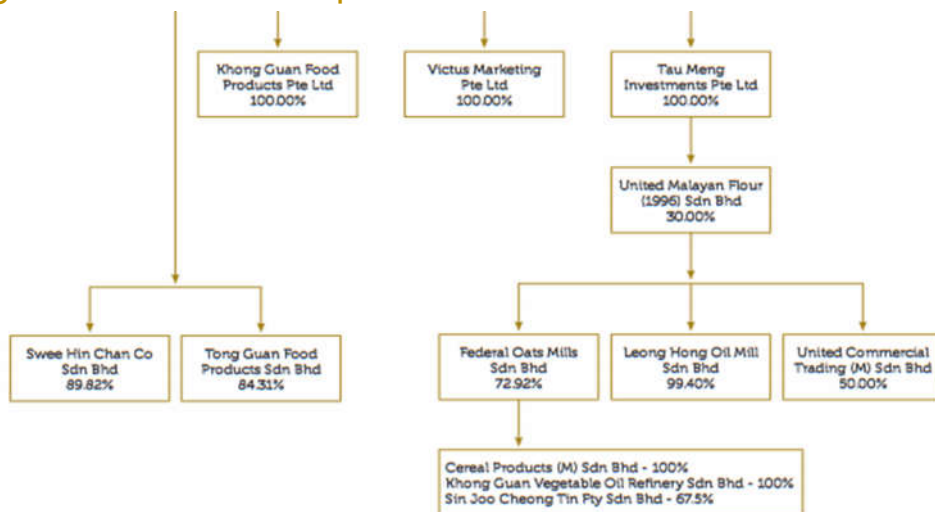


Diagram 1: KGL Group Chart

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

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 service.

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.

TGF was incorporated in March 1973, and commenced business as an importer and distributor of flour and biscuits. It has been entrusted with the responsibility of marketing our wide range of products for 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. Specifically, the range of products includes biscuits, snacks & candies, canned food, beverages, household, oral and personal care items produced by leading international manufacturers such as Khong Guan, Ayam Brand, Mentos, Captain Oats and Tai Sun. A large sales force that services more than 3,000 retail outlets supports the branch offices in all major towns of Sabah. 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 distribution strength has helped our principal partners' brands to reach many corners of Sabah.

The Group and all its subsidiaries have always focused on product safety and compliance with local laws and regulations to bring our consumers quality products. 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.

## Management Approach

In preparation for this Report, in June 2019, the Group carried out an annual thought exercise with the senior staff and external stakeholders at KGL, TGF and SHC to determine what values each entity finds important today, visualize these values and then map them against new sustainability targets that we will establish on a going forward basis. For FY2019, we have identified socioeconomic compliance as the key material factor:

## Material ESG Factors



Diagram 2: Material Factors

Our sustainability team is made up of representatives from each main subsidiary of the Group. The Group has constituted a Sustainability Committee with one sustainability officer from each of its 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

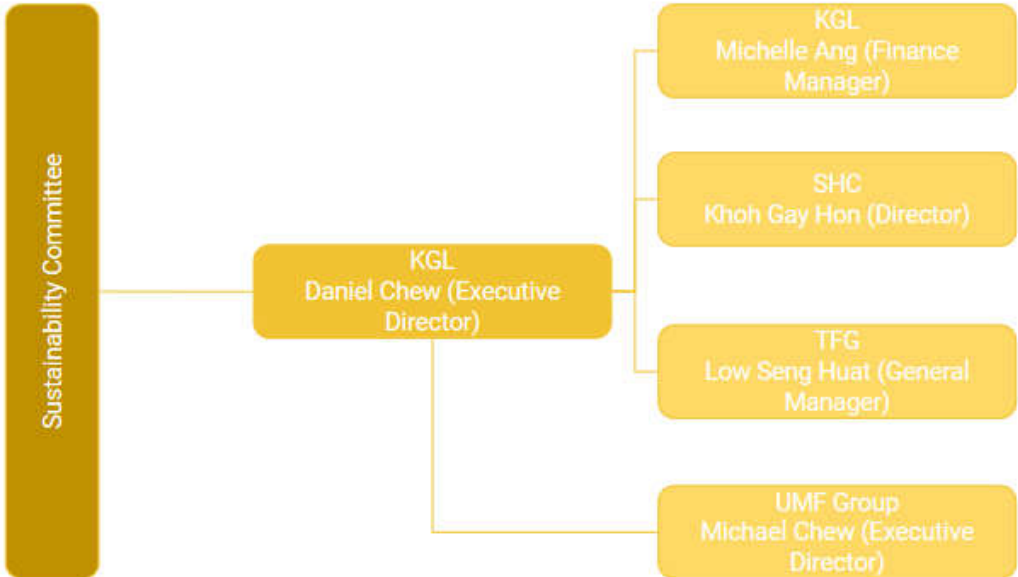


Diagram 3: Composition of Sustainability Committee

## 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 engage 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	Throughout the year
Customers	Business review meetings Customer visits	Throughout the year
Suppliers and Service Providers	Supplier surveys Business meetings with critical suppliers Supplier factory audit	Throughout the year
Shareholders	Web portal & electronic mail Annual General Meeting Group Annual Report	Throughout the year Annually
Local communities	National events such as Singapore National Day.	Throughout the year
Local government	Participation in government agencies' seminars on policy updates On-site advisory visits Regular reports	Throughout the year



## 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 the financial year ended 31st July 2019 for further details.

## 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 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, TGF continues to expand upon the range of products we carry.

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.

## 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 they do not vary greatly from the previous year. Currently the electricity and water usage costs are not deemed material in our business and, barring unforeseen circumstances, are not expected to have any significant increases in the foreseeable future.

## 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 a number of business federations and food manufacturer's associations. In Singapore, they 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 of products and services, 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 optimize resources and minimizes 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.

## Markets Served

The Group is involved in the trading and distribution businesses in Malaysia. We supply Fast Moving Consumer Goods and food ingredients via our subsidiaries, TGF and SHC. The Group's 30% associate, UMF, is a diversified group dealing in wheat flour, oatmeal, pulses, cooking oils, cereals and other investments. 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 indirect through its 30% associate, UMF which has a large 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.

The following diagram detailed the value chain of UMF's key product, wheat flour.

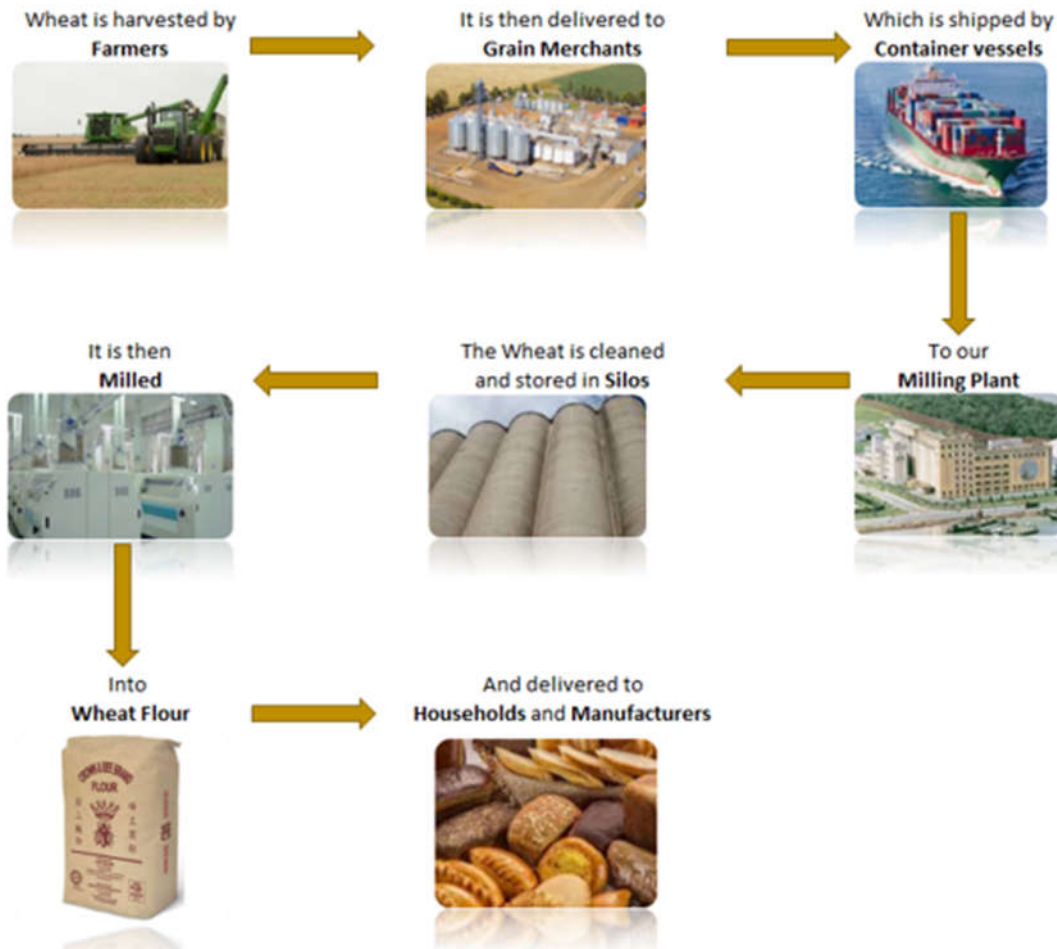


Diagram 4: Supply Chain of UMF, 30% Associate of KGL

## 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.

## Employment

The Group employed 235 personnel as of 31st July 2019. Details of employees within the Group for 2019 and 2018 are as follows:-

Key Group Companies in KGL	Number of employees as of 31 July 2019	Percentage	Number of employees as for 31 July 2018	Percentage
KGL	13	5.53%	13	5.58%
TGF	184	78.30%	186	79.83%
SHC	38	16.17%	34	14.59%
Total	235	100%	233	100%

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 2019	Percentage	Number of employees as of 31 July 2018	Percentage
UMF	138	100%	127	100%

The current gender mix in the organization Group is made up of about 70% male and 30% female. Please refer to Figure 2 “KGL Gender Composition”. KGL does not prioritize any gender, race or religion in its hiring decisions.

For full details of our revenue, please refer to our annual report.

Figure 1: Length of Service of KGL Employees

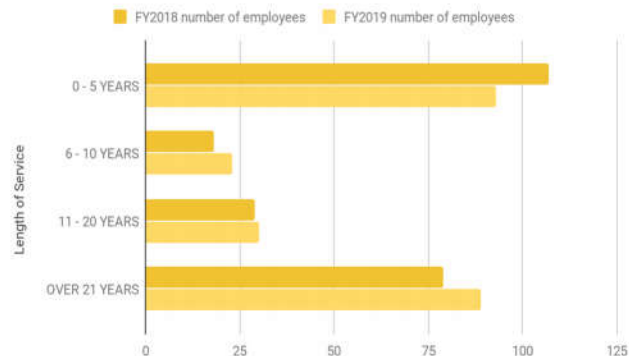


Figure 1A: Length of Service of UMF Employees

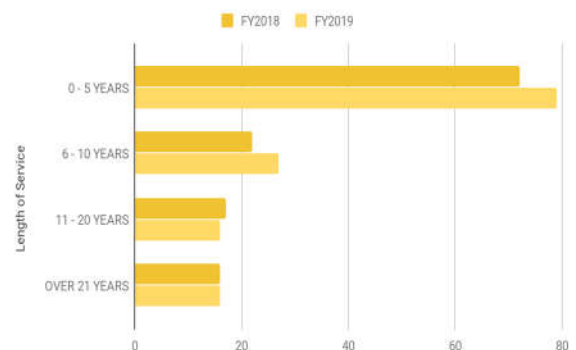


Figure 1, “Length of Service of KGL Employees”, shows that many of our employees have offered significant and loyal services to the Group for many years, with a significant number having stayed with us for more than 21 years. Employee turnover rate has been low, less than 1% in FY2019, which is not significantly different from FY2018. This bears testament to the efficacy of our employment policy, which espouses the ideals of “family friendly” working conditions. We believe that our employees are happy with the prospect of life-long employment at the Group where we treat them as part of the family.

Figure 1A, “Length of Service of UMF Employees”, shows a similar situation for UMF.

Figure 2, below compares the gender composition of the Group, in FY2018 and FY2019. About 70% of employees are male and the balance, female.

Figure 2A, shows a similar situation for UMF.

Figure 2: KGL Gender Composition

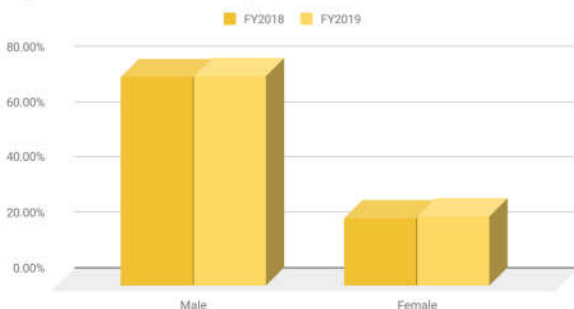
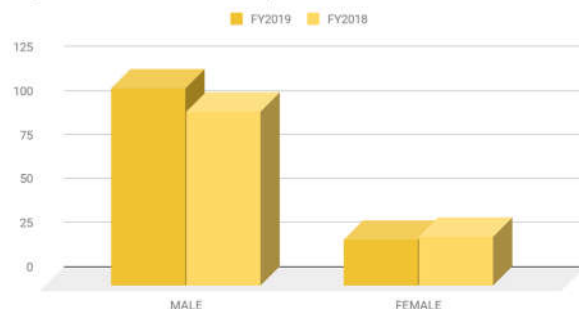


Figure 2A: UMF Gender Composition



The Group has a workforce made up of a diverse group of employees with a majority being of Chinese and Malay ethnicity as shown in Figure 3, “KGL Employee Ethnicity Breakdown FY2019”. Figure 4 shows the FY2018 employee ethnicity breakdown.

Figure 3: KGL Employee Ethnicity Breakdown FY2019

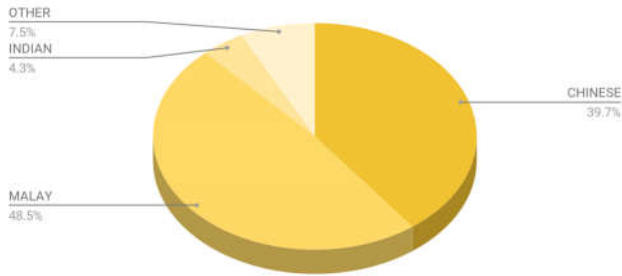


Figure 4: KGL Employee Ethnicity Breakdown FY2018

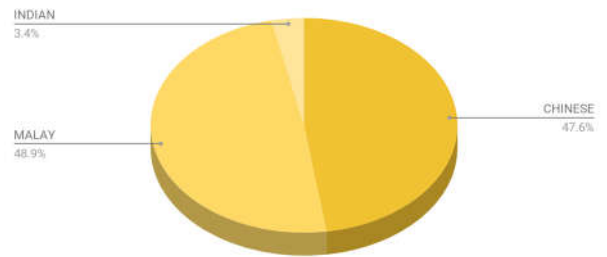


Figure 3A and 4A shows the UMF equivalent for FY2019 and FY2018.

Figure 3A: UMF Employee Ethnicity breakdown FY2019

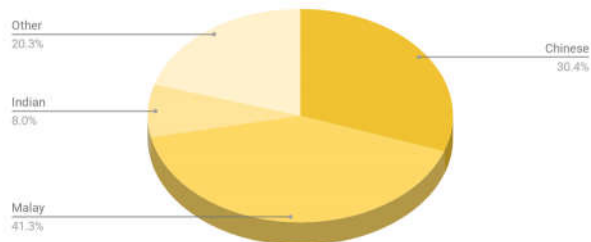
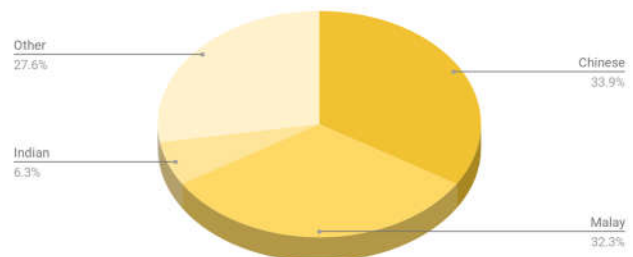


Figure 4A: UMF Employee Ethnicity breakdown FY2018



## Occupational Health and Safety

### Training and Education

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

The KGL group of 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 chemical handling and confined space operations.

## 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 prior to formal job confirmation will be registered as visitors.

## Ill-health related to work

The Group documents all workplace-related health-related incidents along with a medical report. The Safety Committee will study how to avoid a recurrence of an incident and if deemed necessary, updated safety guidelines will be drafted by the Safety 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 of course one of the issues KGL takes most seriously and 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.

## 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.

## 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 the 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 future development.

## 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 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 to strengthen adherence to our policy against child labour or exploitation of children.



## Indigenous Rights

We do not discriminate and hiring is based on merits of the candidates. We will closely monitor compliance with the aforesaid hiring policy.

## 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 the anti-corruption policies and procedures.

## Material Factor

### Regulatory Compliance

Throughout FY2019, there have been no incident of non-compliance with the socioeconomic goals, laws and regulations we have identified as relevant to the Group, which are described in more detail throughout this report.

#### Practices to manage regulatory compliance

Laws and regulations relevant to our operations are mainly Companies Act (Chapter 50), Listing Rules of the Singapore Exchange. 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 Whistle-blowing 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. KGL receives regular updates from relevant authorities on changes to regulations. 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

Audit Committee (AC) and the Board 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 2019.

## Perpetual Target

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

## Performance for FY2019

We have maintained "100%" compliance and "zero" incidence of reported non-compliance with rules and regulations relevant to its operations in FY2019. 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 2019; 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 2019
GRI 102	General Disclosures	102-5	Ownership and legal form	Annual Report 2019
GRI 102	General Disclosures	102-6	Markets served	Annual Report 2019; Sustainability Report - Market Presence
GRI 102	General Disclosures	102-7	Scale of the organization	Annual Report 2019; 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 2019; Sustainability Report - Governance
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behavior	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	1st August 2018 to 31st July 2019
GRI 102	General Disclosures	102-51	Date of most recent report	29th January 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 419	Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	Sustainability Report - Socioeconomic Compliance