

**ANNUAL GENERAL MEETING TO BE HELD ON 30 DECEMBER 2021  
RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION  
(SINGAPORE) AND SHAREHOLDERS**

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The Board of Directors (the “**Board**”) of Khong Guan Limited (the “**Company**”, together with its subsidiaries and associates, the “**Group**”) would like to thank shareholders for submitting their questions in advance of the Annual General Meeting (“**AGM**”) of the Company to be held on 30 December 2021 at 11.00 a.m. The Company has received a set of queries from the Securities Investors Association (Singapore) (“**SIAS**”) and a shareholder in relation to its annual report for the financial year ended 31 July 2021 (the “**2021 Annual Report**”).

The following are the Company’s responses to the corresponding questions from SIAS and shareholders:

**A. Questions received from SIAS**

**Question 1 from SIAS**

**Would the board/management provide shareholders with greater clarity on the following operational matters? Specifically:**

- (i) **Raw material prices: What are the tools and instruments available to the group to better manage the volatility in the price of raw material and the high freight rates? In addition, what is the ability of the group to pass on higher costs?**

**Company’s response**

The volatility in raw material and freight costs mainly affects the Company’s associate, United Malayan Flour (1996) Sdn Bhd (“**UMF**”). As such, UMF closely monitors the raw material prices through commodity indices and close dialogue with its suppliers. This allows UMF to make informed decisions on its procurement strategy in order to navigate through the volatility. Other tools and instruments available that UMF can utilize include Options and/or Basis trading, as well as the ability to re-contract existing purchases should the market move adversely against the earlier contracted price. UMF applies the same strategy towards freight while balancing the supply and export demand for the group’s products. It will endeavour to pass on the price increases to its customers but this is also dependent on whether our competitors increase their prices.

- (ii) **Supply chain: Can management elaborate further on the disruption(s) to the group’s supply chain? Similarly, how can the group better manage such supply chain disruptions?**

**Company’s response**

Supply chain disruption is currently a global issue, affecting trade between countries. Being a significant container user for both its imports and exports, the Group faces operational issues such as availability of container space, as well as delays in arrivals due to rescheduling of shipments. The Group however, has not faced any major disruptions to its business and supply of raw materials. The Group’s focus has been on ensuring the availability of products for its operations through close monitoring of its shipments and regular dialogue with its suppliers and customers. The Group continues to closely monitor and tracks all incoming and outgoing shipments to minimize delays.

- (iii) Tong Guan Food Products Sdn. Bhd. ("TGF"): Does management have an estimate of TGF's market share in Sabah? What are the key growth drivers of the local economy, i.e. Sabah? In addition, what is the pace of the recovery from the pandemic and are there any major opportunities in the next 3-5 years?**

**Company's response**

TGF is one of the top 5 largest FMCG distribution companies in Sabah based on sales turnover. TGF handles over 3,500 products for many leading brands and distribution agencies.

Under the 12th Malaysian Plan, the key industries identified as Sabah's growth drivers of the state's economy include manufacturing, tourism, agriculture, technology and education.

With the easing of Covid restrictions across Malaysia, the wholesale, retail and services sector (which includes tourism, F&B and hospitality industries) is expected to recover gradually, presenting growth opportunities for TGF. However, we are mindful that should further restrictions be imposed in Sabah due to new waves of COVID19 infections, this may pose another challenge to TGF. Having experienced the earlier MCOs, the team in TGF are now better prepared to manage the situation.

TGF will continue to expand its product offerings and leverage on its distribution reach across all parts of Sabah in the coming years.

- (iv) Rental income: The group recognised rental income of \$415,767 in FY2021, an increase from \$169,692 in FY2020. On page 52, the company has stated that 5 storeys out of the 6 storeys available for rent have been leased out to tenants. Two storeys are being used by the company and one storey is still vacant. What is the difficulty in leasing out the remaining floor? It would appear that the space has been vacant since the building was completed approximately 3 years ago.**

**Company's response**

The remaining unit for rent has been leased out to a new tenant commencing on 1<sup>st</sup> January 2022.

**Question 2 from SIAS**

**On 22 March 2021, the company announced that it had entered into a shareholders' agreement which would result in the company subscribing for 30% of the share capital of SGProtein Pte Ltd for cash consideration of \$1.5 million.**

**The principal activity of SGProtein will be the production and sale of plant-based meat alternatives.**

**The announcement can be found here:**

**[https://links.sgx.com/FileOpen/KGL%20-](https://links.sgx.com/FileOpen/KGL%20-%20SG%20Protein%2022032021.ashx?App=Announcement&FileID=652792)**

**[%20SG%20Protein%2022032021.ashx?App=Announcement&FileID=652792](https://links.sgx.com/FileOpen/KGL%20-%20SG%20Protein%2022032021.ashx?App=Announcement&FileID=652792)**

**The chairman, in his statement, has also updated that SGProtein is progressing as planned and the installation of the plant and machinery at Commonwealth Capital building is ongoing. It is expected that commercial production will commence in 2022, which will enable the group to participate in the plant-based food segment.**

- (i) Can management help shareholders understand if SGProtein is synergistic with the group's existing operations?**

**Company's response**

SGProtein is synergistic to the Group's existing operations in the area of food manufacturing and supply chain (sourcing and distribution). The Group distributes and trades in products including ingredients utilized in the production of plant-based alternative meat products. Subject to meeting the requirements of SGProtein, the Group could be a supplier of choice for SGProtein. In addition, SGProtein is able to tap on the Group's network of customers for the distribution and sale of its products. The Group is also able to share its expertise in food manufacturing with SGProtein, if required.

- (ii) What are the products that will be introduced to the market at the launch?**

**Company's response**

SGProtein will produce high-moisture extruded plant-based meat analogues focused on plant-based chicken meat alternatives. It also has plans to extend its product offerings to other plant-based meat alternatives in the future.

- (iii) In addition, what is the experience of the board/management in valuing start-ups, especially those that are pre-revenue? What was the pre-money valuation of SGProtein? How was that determined?**

**Company's response**

The board and management team of the Company consists of experienced managers, and entrepreneurs that have successfully built profitable businesses over three generations, with expertise in large scale food manufacturing operations. The board had ascertained that the valuation of SGProtein was favourable in comparison to its peers.

(Note: The details of the terms of our minority investment in SGProtein are subject to confidentiality and not public information.)

- (iv) What is the due diligence conducted by the group on the plant-based food segment, e.g. the addressable market, consumer preferences, pricing and margin etc.?**

**Company's response**

The Company has considered the addressable market size for plant-based meat alternatives in the region and its potential growth is driven by a growing interest in plant-based meat alternative. We are confident that SGProtein will play a strategic role in Singapore's plant-based food ecosystem.

- (v) What is the level of influence and control over SGProtein?**

**Company's response**

The Company holds a non-controlling stake of 30% in SGProtein and it is represented on the board of SGProtein.

**(vi) Can management disclose the identity of the founder(s) and help shareholders understand the track record of the management team of SGProtein?**

**Company's response**

The founder team of SGProtein has strong and relevant experience in food manufacturing technology, which is at the core of the business. It is led by Mr. Dominique Reto Kull who is the CEO, and is one of the three co-founders. He is an experienced leader with over 20 years of experience in the food technology and food processing industry, covering business development, project management, sales and technology.

**(vii) Please also identify the risks of the new business and the group's risk management strategy.**

**Company's response**

- (a) Market Risk. Competitors with more resources and new entrants may intensify competition in the market for plant-based alternative meat. Furthermore, these competitors may introduce newer and more innovative products which may adversely affect our market position.

Management Strategy – The Company follows up closely the development at SGProtein to ensure that it would be able to introduce its products to the market in the shortest possible time. Given the Company's experience and that of its founding shareholders in the food industry, SGProtein is able to tap into their knowhow and network in areas such as pricing, market positioning, branding and other relevant factors;

- (b) Operational Risk. SGProtein, a new start-up, is subject to general risks associated with manufacturing such as delays in production, quality of raw materials and finished products, and distribution and logistical issues. Notwithstanding these, the Company is confident of addressing these risks as it has experience and strong expertise in manufacturing, coupled with the competent management team in SGProtein.

Management Strategy – The board of SGProtein comprises directors with strong food industry experience and expertise. In addition, the management team, includes people with food & beverage and food technology experience. The board of SGProtein meets the management regularly to discuss operational issues and updates have been provided to the founding shareholders, including the Company.

- (c) Financial Risk. While the founding shareholders including the Company has reviewed the budget (including financial forecast), SGProtein may nonetheless require additional working capital and capital investment than anticipated. Furthermore, SGProtein may not become profitable in the timeline established by the management. As such, the Company and other shareholders may be required to inject more funds into SGProtein. In the event that SGProtein does not turn profitable as planned, the Company and other shareholders may also incur losses on impairment on its investment in SGProtein which may adversely affect the Company's financial performance. However, the Company is confident of the prospects of SGProtein.

Management Strategy – The Company reviewed and approved the budget (including financial forecast) for SGProtein and monitors the performance on a monthly basis.

### **Question 3 from SIAS**

**As noted in the corporate governance report, the group's internal audit function 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 the Malaysia Institute of Certified Public Accountants.**

- (i) Can the audit committee ("AC") confirm that the internal audit function is adequately resourced and staffed with persons with the relevant qualifications and experience?**

#### **Company's response**

Yes, SMS Risk Management Sdn Bhd is adequately resourced and staffed. The team is helmed by a qualified member of Malaysian Institute of Certified Public Accountants and assisted by another qualified member of Malaysian Institute of Accountants.

- (ii) Does the internal audit function comply with the standards set by nationally or internationally recognised professional bodies, such as the Institute of Internal Auditors?**

#### **Company's response**

The internal audit adopts the COSO (the Committee Of Sponsoring Organisations of the Threadway Commission) Integrated Framework of Internal Audit in carrying out its audit functions.

- (iii) Can the AC confirm if the internal audit plan covered all the major (local and overseas) entities, including Tong Guan Food Products Sdn. Bhd. ("TGF"), Swee Hin Chan Company Sdn. Berhad ("SHC") and United Malayan Flour (1996) Sdn Bhd ("UMF") (which is an associate)?**

#### **Company's response**

Yes, the internal audit plan covered all the major active entities, including United Malayan Flour (1996) Sdn Bhd.

- (iv) What was the scope of the internal audit plan?**

#### **Company's response**

The scope of the internal audit plan covered the risk management assessments including the examination and evaluation of internal control systems, to ensure that the relevant internal controls were in place throughout the Group's activities.

In addition, as a result of the additional risks arising from the COVID-19 pandemic, the internal auditor was also tasked to review and report on the following areas:

- a. Liquidity and going concern
- b. Impairment of asset value

**(v) What were the key findings by the internal auditor?**

**Company's response**

There were no significant risks raised in this year's internal audit reports. The report highlighted certain weaknesses and non-compliance on policies and procedures. This had minimal impact on the financial performance of the Group. The Group has since taken steps to rectify the concerns raised by the internal auditor.

**B. Shareholder Questions**

**Question from shareholder**

**In his statement in the 2021 annual report, the company's chairman said the following with regard to the investment in SGProtein: it "progressing as planned and the installation of the plant and machinery at Commonwealth Capital building is ongoing. We expect that commercial production will commence in 2022, which will enable the Group to participate in the plant-based food segment." (p. 4)**

**I have a number of questions related to KGL's investment in SGProtein:**

**(Q1) What would be the estimated size of the addressable market for plant-based meat alternatives in Singapore by around 2025? (I assume that KGL has done some modelling on this issue.)**

**Company's response**

Singapore is a country with a relatively small population compared to its neighbors. As such, SGProtein intends to supply high-quality products not just to the Singapore market but also to the entire Southeast Asia region. To provide a market perspective, in 2020, Singapore's chicken consumption was approximately 200,000 tonnes. SGProtein's production capacity is about 1.5% of this market. We estimate that the plant-based sector could grow to 10% of the region's meat market by 2035. This will create opportunities for SGProtein to tap on the growing demand for plant-based products.

**(Q2) Conservatively, what would be the estimated size of the addressable market for plant-based meat alternatives beyond Singapore, in parts of Southeast Asia, by around 2025 and which SGProtein intends to be a supplier?**

**Company's response**

SGProtein strives to become the preferred producer of meat alternatives in Southeast Asia, growing beyond the Singapore market. As we are looking at a relatively new market (ie plant based sector), estimates for addressable market vary a lot. In our opinion, people will eat less meat in the future and switch to plant based alternatives. The addressable market size will depend on price point for plant based alternatives. With the current installed production capacity at SGProtein and the potential to scale, barring unforeseen circumstances, we expect SG Protein to be competitive in the plant based sector. Therefore, SGProtein would be able to participate in meeting the growing consumer demand for plant-based products.

**(Q3) Does KGL rule out the possibility that at some stage SGProtein would seek to be a listed company through an IPO on either SGX, the HKEX, or NYSE/Nasdaq or some other exchange?**

**Company's response**

We are constantly reviewing our options relating to SGProtein. Currently, SGProtein is at a development stage and it is probably right for us to focus on growing its business.

**BY ORDER OF THE BOARD  
CHEW KIAN BOON DANIEL  
Executive Director  
27 December 2021**