

KHONG GUAN LIMITED

(Formerly know as Khong Guan Flour Milling Limited)
(Company Regn. No. 196000096G)

RESPONSE TO EMAIL FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 JULY 2017

Q1 (A) Can the company confirm that the level of "trading in securities" of \$3,789,000 simply refers to the proceeds from the sale of the group's securities in its investment trading portfolio in the year? What is the significance of this metric? Is this a key performance indicator that is being tracked by the management?

Yes, the level of trading in securities refers to the proceeds from the sale of the Group's securities in its investment trading portfolio.

There is no significance of this metric as it was part of the segmental reporting requirement under FRS disclosure and it is not a key performance indicator.

Q1(b) Could the chairman consider reporting on the long-term performance of the investment trading segment? Shareholder would also like to request information such as the size of the portfolio, the major investments, key risks, and management's view of the market.

The Company initiated investment in equity markets to get a better return than fixed deposit interest on its surplus fund. These investments do not form a major asset of the Company. It will look into the feasibility and cost of reporting on the long-term performance of its investment trading activities.

The Company's portfolio is skewed towards companies in the financial and plantation industries. Its major investments are in OCBC (Singapore) and Perlis Plantation Berhad (Malaysia).

The key risks that have a major impact on the Company's investments are currency risk (SGD vs RM) and liquidity risks of its investments.

As the major stock markets in the world have risen significantly, there is a risk of a correction. The management will therefore be cautious about increasing its exposure to the stock markets and will likely take profit on stocks that have reached its potential to realise funds for the construction of the new building.

Q2(a) Given that the group's profits are mainly derived from United Malayan Flour, can shareholders understand what is the level of influence and oversight of the operations in this 30% held associate?

Although the Company has significant influence over United Malayan Flour ('UMF'), its 30% associate, all matters concerning the operations of UMF which will have a material and significant effect on the financial position of UMF will have to be presented to the Board of Directors of UMF for their review and approval.

Q2(b) Does the group set or influence the strategic objectives of United Malayan Flour?

Even though UMF has a shareholder agreement to allow our management to manage its day to day operations, all important strategic investment or objectives still require the consent of the shareholders of UMF.

Q2(c) Given the challenges and the sub-par performance of the two major subsidiaries in the recent years, would the board consider it opportune to carry out a strategic review?

The sub-par performance of the two major subsidiaries in the recent years was due to the strengthening of Singapore Dollar against the Malaysian Ringgit. The Company is always reviewing the business model of these subsidiaries and will take all necessary actions if needed.

Q3 (a) Can shareholders understand which party initiated the sale of shares in FEB and who led the negotiation for the company that determined the consideration of KH\$4,000,000?

The Company initiated the sale of the shares in FEB in February 2017, after the majority shareholder of FEB made a verbal non-negotiable offer of HKD4,000,000 to the Company.

Q3(b) While the AC had reviewed the prospects of FEB and weighed the pros and cons of the transaction, on what basis did the AC determine that the sale of FEB shares for a consideration of HK\$4,000,000 was “in the best interest of the Group and is not detrimental to the interest of the minority shareholders of the Company”?

We understand that an associate of FEB will be closing down its biscuit factory in Shanghai soon as its land lease will expire in January 2019.

Based on the declining net tangible assets per share (HKD2.05 in 2014 to HKD1.57 in 2016) and the estimated high losses that FEB is expected to incur in the coming years, the AC is of the opinion that it was in the best interest of the Group to accept the offer.

If the Company does not accept the offer, it will be required to provide for additional diminution in value of this investment in the current year and higher provision in future periods due to the closure of FEB associate.

Q3(C) Should the company have included this transaction in the company’s disclosure of “Interest Person Transactions as set out in the Corporate Governance Report (on page 20)?

Interest Person Transactions (IPT) as set out in the Corporate Governance Report refers to recurring IPT that had been approved by the shareholders in the previous annual general meeting. Disposal of assets was disclosed separately through SGX announcement and in note 8 to the financial statements (page 67). However, we take note of this observation, and will cross-reference this in the future.

By Order of the Board

Koe Eng Chuan

Company Secretary

15 December 2017