KING WAN CORPORATION LIMITED
Incorporated in the Republic of Singapore
(Company Registration No. 200001034R)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE COMPANY'S ANNOUNCEMENT DATED 15 SEPTEMBER 2020 PERTAINING TO "INDEPENDENT AUDITOR'S COMMENT ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020 ("FY2020")"

The Board of Directors (the "Board") of King Wan Corporation Limited (the "Company" and together with its subsidiaries, the "Group") hereby provides its response to the queries raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") on 22 September 2020 in relation to the Company's independent auditor's comment on the financial statements for FY2020 announced via the SGXNet on 15 September 2020, as set out below:

Question 1:

In FY2020, the Group reported a net comprehensive loss of $14,014,000 and the Group's current liabilities exceeded its current assets by $8,249,000. In addition, the Group's aggregate bills payables and bank borrowings amounting to approximately $34,255,000, will be due for repayment within twelve months from March 31, 2020. However, the Company's cash and bank balances amount to approximately $8,197,000.

a. Given the Group's significant liabilities of $34.3million and cash and bank balance of only $8.2 million and noting that the Company incurred losses of $14 million in FY2020, please disclose how the Company intends to fulfil its significant payment obligations in the next 12 months.

b. In response to the auditors' comments, the Directors had opined that the going concern assumption is appropriate, inter alia, as "by end June 2020, the Group has secured approximately S$189.6 million worth of M&E engineering services contracts on hand.". Please disclose whether how many of these orders are expected to be fulfilled in the next 12 months and disclose the progress schedule of these M&E engineering services contracts. Please elaborate on whether in the Board's view, the net profit from these M&E engineering services contracts in the next 12 months are adequate to meet the Company's short term liabilities of S$34.2 million.

Company's response:

a. For FY2020, the Group reported a net comprehensive loss of $14.0 million. This was due to net fair value loss in equity securities carried at fair value through other comprehensive income amounting to $14.6 million. This was a result of a drop in the quoted closing market price of the Group's investments in Kaset Thai International Sugar Corporation Public Company Limited ("KTIS") which is listed on Stock Exchange of Thailand. This had no impact to the cash flows of the Group. For FY2020, the Group reported a net profit after income tax of $0.42 million mainly contributed by its core Mechanical & Electrical ("M&E") engineering services business.

As at 31 March 2020, the Group reported trade receivables and contract assets amounting to $5.3 million and $25.3 million respectively. In addition, the Group and its main contractors have continued to engage each other to finalise the accounts for variation orders that were completed before 31 March 2020. Apart from this source of cash inflow, the collection of retention monies for completed projects that are subsequently due for release also benefits the Group as an additional cash inflow.

As at 31 March 2020, the Group also had available $15.1 million of undrawn bank credit facilities. In May 2020, the Group had also drawn down $5.0 million temporary bridging loan ("TBL") under Enterprise Financing Scheme. At the date of this announcement, 87% of the Group's ongoing M&E engineering construction projects have resumed work. The Group is able to utilise operating cash inflows, undrawn bank credit facilities and TBL to repay its indebtedness as and when they fall due. The banks have continued to give their support to the Group.

Barring unforeseen circumstances, the Board is confident that the Group's core M&E engineering services business is on track to resume operations for all ongoing construction projects by November 2020 and will be able to sustain its monthly cash collections to fulfil its payment obligations in the next 12 months.

b. Amidst the COVID-19 pandemic, there are stoppages made to construction activities and additional safe-distancing measures are required to be implemented at construction sites. Consequently, the construction schedules have been delayed and the construction costs have increased. As the construction activities have yet to be restored to pre-COVID-19 level, the Group is unable to determine with certainty at this juncture on how many of these orders would be expected to be fulfilled in the next 12 months and disclose the progress schedule of these M&E engineering services contracts.

   The Group is constantly monitoring the situation and working closely with the main contractors and sub-contractors to ensure that the site works are progressing in a controlled and safe manner while expediting the progress at the sites. At the date of this announcement, 87% of the Group's ongoing M&E engineering construction projects have resumed work.

   Please refer to point 1 (a) above for Board's view on how the Group intends to meet its short-term liabilities of S$34.2 million.

Question 2:

As at March 31, 2020, the auditors noted that the Group had also breached certain debt covenants with "a few financial institutions". The Group had obtained letters of indulgence or waiver from the respective financial institutions before the end of the reporting period as waivers of the breaches, except for an amount of $500,000 which was reclassified from non-current to current liabilities.

a. In response to this observation, the Directors disclosed that the "The Group had obtained the corresponding letters of indulgence or waiver from all these financial institutions before the end of the reporting period". Please clarify if the waiver includes the outstanding amount of $500k noted by the auditors. Please disclose the date(s) when the said debt covenants were breached and pursuant to Listing Rule 704(32), disclose if the breaches of the debt covenants constitutes an event, which in the Directors' opinion, may either (i) have a significant impact on the operations of the Company or (ii) result in the Company facing a cash flow problem.

b. Please disclose the terms and conditions of the letter(s) of indulgence/ waiver of these financial institutions, the outstanding amount which the Company is in default and when the Group is expected to repay the said outstanding amount.

c. Please disclose if the Company has worked out a debt repayment plan to fulfil its debt covenant obligations and whether the Company is on track to fulfilling these obligations.

Company's response:

a. Yes, the aforesaid letters of indulgence or waiver obtained from the respective financial institutions includes the outstanding amount of $0.5 million noted by the auditors. The said debt covenants were breached on 31 March 2020 as a result of a reduction in net assets due to net fair value loss in equity securities carried at fair value through other comprehensive income amounting to $14.6 million taken up in accounts as at 31 March 2020. Please refer to point 1 (a) above for more details. In the Directors' opinion, pursuant to Listing Rule 704(32), this had no significant impact on the operations of the Group and will not result in the Group facing a cash flow problem.

b. There are no new terms and conditions specified in the aforesaid letters of indulgence or waiver. The Group is not in default for any outstanding loans. The financial institutions did not accelerate the maturity dates of the loans or recall any outstanding loans.

c. With respect to point 2 (b) above, there have been no requirements to work out any debt repayment plan to fulfil its debt covenant obligations.

Question 3:

The Auditors noted that due to the COVID-19 pandemic, the cash flows and financial position of the Group have been impacted adversely as construction activities [had] to be halted during the "Circuit Breaker" period in Singapore from April 7, 2020 to June 1, 2020. It is still uncertain when operations will be fully resumed… and whether monthly cash collections can be sustained. Consequently, the Group is exposed to an increased liquidity risk in relation to its ability to repay its indebtedness as and when they fall due.

a. The auditors opined that "In the event that the Group is unable to fully resume its operations from the month of November 2020 onwards and sustain its monthly cash collections or does not continue to receive support from the bankers, the Group and Company may be unable to discharge their liabilities in the normal course of business…". Please disclose what % of the Group's business operations has resumed to-date and the impact on the Company's cash flow and revenue arising from the government stop order on the Group's construction work.

b. The Company disclosed that "the Board is of the opinion that the Group and the Company will be able to fulfil its obligations for the next 12 months" To substantiate with data how the Group will have sufficient working capital for its operations for the next 12 months and the basis for the Board's view that the Group will be able to fulfil its obligations for the next 12 months. Please disclose the Board's cash flow forecast for the next 12 months in coming to this view.

Company's response:

a. At the date of this announcement, 87% of the Group's ongoing M&E engineering construction projects have resumed work. As explained in point 1 (b) above, the current situation remains fluid, the Group is thus unable to determine with certainty at this juncture the impact on the Company's cash flow and revenue arising from the government stop order on the Group's construction work.

b. Please refer to point 1 (a) for explanation with substantiation of data on how the Group will have sufficient working capital for its operations for the next 12 months and the basis for the Board's view that the Group will be able to fulfil its obligations for the next 12 months. Barring unforeseen circumstances, as the Group is able to utilise operating cash inflows, undrawn bank credit facilities and TBL to repay its indebtedness as and when they fall due, the Board's cash flow forecast will maintain an average monthly cash balance of approximately $5 million for the next 12 months to meet the requirement of the Group's operations.

BY ORDER OF THE BOARD

Chua Eng Eng
Managing Director
24 September 2020