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

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

The Board of Directors (the "Board") of King Wan Corporation Limited (the "Company" and together with its subsidiaries, the "Group") refers to the questions received from the Securities Investors Association (Singapore) ("SIAS") in relation to the Annual Report of the Company for the financial year ended 31 March 2020. We would like to thank SIAS for submitting questions ahead of the Company's Annual General Meeting to be held on 29 September 2020 at 10.00 a.m. via live webcast. The Company wishes to provide its responses to the questions received from SIAS that are substantial and relevant to the Annual Report, as set out below:

Question 1 (i):

Can management elaborate further on the group's competitive advantage in the plumbing and sanitary segment and the electrical engineering segment? From Note 38 (Segment information), it can be seen that the electrical segment has been loss-making in the past 2 financial years.

Company's response:

The Group has more than 40 years' experiences in Mechanical & Electrical ("M&E") engineering services with proven track records of various project completion ranging from residential to complex mixed development. Some of these notable projects include City Gate, Novena Specialist Centre, Oasis Hotel as well as The Tampines Town Hub and the highly acclaimed mixed-use development project, Jewel Changi Airport.

The Group holds the highest "L6" grading in 4 workheads of the M&E engineering services categories under the contractors' registry administered by the Building and Construction Authority, namely ME15 Integrated Building Services, ME12 Plumbing and Sanitary Works, ME05 Electrical Engineering and ME01 Air-Conditioning, Refrigeration and Ventilation Works. This enables the Group to bid for all public sector projects in Singapore in the relevant workhead categories of unlimited value.

As a result of the Group's good reputation in M&E engineering services and our experienced and versatile employees, we have been able to secure a good stream of the projects in both public and private sectors, as well as adopting the M&E engineering services expertise and skills to a wider portfolio including infrastructure projects.

M&E engineering services businesses, especially for electrical segment had been challenging with keen competition, increase in labour cost and reduced profit margin for the past 3 years. In addition, the Group had made loss allowances on trade receivables due from certain sub-contractors as we had experienced difficulties in recovering these trade receivables from them. These trade receivables were mainly made up of back-charges of materials and labour costs incurred for construction projects.

Question 1 (ii):

Has the group improved its competitiveness and progressively increase its productivity by leveraging technology? Can management show the trend of value-add per employee over the years?

Company's response:

The Group had adopted technologies including Building Information Modelling and Prefabricated Prefinished Volumetric Construction ("PPVC"). The Group was among the contractors to embark and completed one of the first few PPVC projects in Singapore namely Crowne Plaza Hotel Extension. The Group has also been actively looking into and tapping on various government support grants to digitalise its manual processes such as procurement and manpower utilisation for better resource planning, and provide training to our Staff. Management does not track value-add per employee and hence we are unable to show the relevant past trend.

Question 1 (iii):

In addition, while the group stated that the portable lavatories/toilet rental segment has provided it with recurring revenue stream for more than 20 years, it would appear that it has registered segment losses (before finance costs and unallocated expenses) in the past 4 years - $(588,000) in FY2020, $(820,000) in FY2019, $(1,097,551) in FY2018 and $(717,638) in FY2017, for a cumulative loss of $(3.22) million. Would management help shareholders understand the reasons for the losses? What were the utilisation rates? What are management's strategies to turnaround the segment other than just focusing on revenue?

The portable lavatories/toilet rental business segment had been continuously encountering increased competition due to low barrier of entry to the industry. As a result, both rental and utilisation rates had decreased. Utilisation rate hovered around 50%-70%. Despite the keen competition, the Group had been able to maintain some of our long-time customers, and we continued to step up on our marketing efforts and managed cost more efficiently. We noted that the smaller players who were unable to sustain the lower price had gradually exited the market. Consequently, the segment losses had peaked in FY2018 and subsequently decreased in FY2019 and FY2020.

With increased awareness of hygiene issues as a result of COVID-19, the government has improved the relevant requirements that are piloted into quick build workers' dormitories, as well as construction sites. This has boosted an increasing demand for portable lavatories as the ratio of lavatories to workers has increased. The current utilisation rate is more than 90%. In addition, the Group has also successfully explored a new business opportunity whereby it modifies portable lavatories by tapping on its M&E skills to install shower unit and wash basin which meets the current market demand at affordable cost. The Group either sells or rents these modified portable lavatories. Barring unforeseen circumstances, we are expecting the portable lavatories/toilet rental business segment to be profitable in the ensuing financial year ending 31 March 2021.

Question 1 (iv):

Would the directors, including the independent directors, help shareholders understand if the board has been effective at "providing leadership and direction to enhance the long-term value of the group to its shareholders and other stakeholders"?

Company's response:

The decrease in shareholders' funds is mainly due to net fair value loss in equity securities carried at fair value through other comprehensive income. The net fair value loss in equity securities 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 and one of the largest sugar producers in Thailand. As at 31 March 2020, the cumulative loss in investment revaluation reserve amounted to $29.9 million. Since listed, KTIS has ventured into different businesses along its supply chain, invested in production of by-products such as electricity, manufacture of environmentally friendly packaging and utensils made from bagasse pulp and even bioeconomy complex which aims to use sugar by-products in biochemical products. The Group has also received a stable inflow of dividend income from KTIS.

The Group's core M&E engineering services business has proven to be resilient and remain profitable despite that the construction industry in Singapore have been challenging with lower project margins as a result of keener competition. Please refer to point 1 (i) above for more details.

The Directors, including the Independent Directors, are therefore of the view that the plan to hold on to its investment in KTIS and continue focusing on its operations in M&E engineering services have the potential to create long term value for shareholders and other stakeholders.

Question 1 (v):

Would the board, especially the independent directors, consider it opportune to carry out a strategic review of the group's operations to assess the core competencies of the group, its management team and its financial strength and to fine-tune its strategies so as to create long-term sustainable value for all shareholders?

Company's response:

With respect to point 1 (iv) above, it has been a continuous process for the Board, including the Independent Directors, to carry out a strategic review of the group's operations to assess the core competencies of the group, its management team and its financial strength and to fine-tune its strategies so as to create long-term sustainable value for all shareholders

Question 2 (i):

For the benefit of new and long-standing shareholders, can the board clearly state the total amount invested in the Dalian project (before any impairment). What are the returns so far, if any?

Company's response:

As at 31 March 2020, the Group had invested $9.8 million in share capital and contributed $61.9 million advances for Dalian project (before any impairment).

Question 2 (ii):

What is the total amount impaired so far?

Company's response:

As at 31 March 2020, the Group had equity accounted it share of loss of associates and joint venture amounting to $9.8 million in share capital and made loss allowances amounting to $31.8 million in advances for Dalian project.

Question 2 (iii):

Given that the auditors have highlighted a material uncertainty related to going concern, along with the challenges brought about by the pandemic, has the board considered its options for the Dalian project?

Company's response:

For property development in Dalian, PRC, the Group with continue to work with our associates to sell off remaining completed properties, and will not commence work on any new phases until the market has shown clear signs of improvement. The Group and its associates will also consider to divest the balance undeveloped land if any good opportunity arises.

Question 2 (iv):

Would the audit committee think it is opportune to conduct an independent review to help shareholders better understand the situation in Dalian and to evaluate the group's options to safeguard shareholders' interests?

Company's response:

With respect to point 1 (iv) above, it has been a continuous process for the audit committee to conduct independent review on the Group's operations to safeguard shareholders' interests.

Question 3 (i):

Can the board help shareholders understand if it has met the disclosure requirements pursuant to Rule 710 of the SGX listing manual?

In particular, can the board elaborate further on the reasons for deviating from Provision 2.2 and 2.3 and help shareholders understand how the current practices are consistent with the intent of the relevant principle?

Has the board, especially the nominating committee (NC), evaluated how it might be able to achieve a higher degree of independent decision making, foster more robust discussions and to guard against group-think by meeting Provisions 2.2 and 2.3?

Company's response:

The Board is cognizant of the deviations from Provision 2.2 and 2.3 of the Code of Corporate Governance 2018. Notwithstanding these deviations, the Board is of the view that there is a sufficiently strong independent element and safeguards in place to enable independent exercise of objective judgement on affairs and operations of the Group by members of the Board.

The independent directors make up half of the Board. The Audit Committee and Remuneration Committee comprise entirely of Independent Directors while the Nominating Committee is made up of a majority of Independent Directors. All these Board Committee meetings are chaired by the Independent Directors and decisions made at these meetings are achieved by majority consensus. Management regularly puts up proposals or reports for the Board's approval, for example, proposals relating to specific proposed transactions or general business direction or strategy of the Group. The Independent Directors, when presented with these proposals for their consideration, evaluate the proposals made by Management and where appropriate provide guidance to Management on relevant aspects of the Group's business.

Given the strong independent element on the Board, the Board is satisfied that all decisions have been made properly and independent of any vested interest. Having considered the scope and nature of the operations of the Group, the Board, in consultation with the Nominating Committee, is satisfied that the current composition mix and size of the Board is appropriate as it allows for informed and constructive discussion and effective decision making at meetings of the Board and Board Committees.

Question 3 (ii):

Would the NC elaborate further on the board's succession plans for directors?

Company's response:

The Nominating Committee always keeps the Board's succession plans in view and will continue to review opportunities to refresh the Board with a view to expanding the skills, experience and diversity of the Board as a whole. As at this juncture, there is no definitive plan and if there is any development on this matter, the Company will update the shareholders and make the appropriate announcement.

BY ORDER OF THE BOARD

Chua Eng Eng
Managing Director
28 September 2020