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 2024

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 2024 (“FY2024”). The Board would like to thank SIAS for submitting questions ahead of the Company’s Annual General Meeting (“AGM”) to be held on 31 July 2024 at 10.00 a.m.. The Company also wishes to inform that it has not received any comments, queries and/or questions from shareholders in relation to the businesses, operations and in particular, the resolutions to be tabled for approval at AGM.

The Company wishes to provide its responses to questions received from SIAS as set out below:

Question 1:

On 30 May 2024, the company announced the cessation of Mr Chua Kim Hua as chairman of the board with effect from 30 June 2024 and that Dr Teo Ho Pin would be appointed as the new independent chairman of the board with effect from 1 July 2024.

i. Can the board, especially the nominating committee (“NC”), help shareholders better understand the search and nomination process for the position of the chairman of the board? What criteria was used by the NC in shortlisting and selecting the new chairman?

As noted in the message to shareholders in the annual report, Mr Chua Kim Hua has led the group with vision, dedication and leadership for over 40 years. He will pass the baton to the new chairman who will lead the group into the next phase of growth and transformation.

ii. Can the new chairman detail his experience in mechanical and electrical (“M&E”) engineering services within the build and construction industry? How does he plan to lead the group into its next phase of growth and transformation?

iii. Under the leadership of the new chairman, will the group undertake a comprehensive review of its competitive advantages and identify new growth drivers within its core businesses?

Despite the group’s nearly 50-year legacy, its recent financial performance has been mixed at best. As at 31 March 2024, equity attributable to owners of the company stood at $70.1 million, after a strong rebound in FY2024 and $7 million raised through a rights issue in FY2022. A decade ago, as at 31 March 2015, the group’s equity was $98.2 million.

As at 31 March 2024, the investment revaluation reserve was recorded at $(29.0) million. Notably, $31 million in advances to the Dalian associate has been fully impaired. Overall, the gross profit margin for the works completed in FY2024 was 1.4%.

iv. Can the chairman provide shareholders with greater clarity on the group's strategic focus for the group going forward? How will the board be finetuning the capital allocation strategy, especially with regard to investments?

v. How does the chairman plan to address and resolve the significant impairment related to the Dalian associate? What strategic actions will be taken to recover and potentially reallocate the capital tied up in the struggling Chinese real estate sector to more profitable ventures?

vi. What step is the board taking to reassess and streamline the group's investment portfolio, particularly regarding non-controlling stakes in non-core and non-synergistic investments such as vessel ownership, KTIS, and Liberty Plaza?

Company's response:

Dr. Teo Ho Pin was appointed as an independent director of the Company on 1 April 2022 as part of the progressive renewal of board process. He currently serves as the Chairman of the Remuneration Committee and is a member of the Audit Committee. The NC recognises that Dr. Teo has gained significant insights into the Group's business and operations over time and has consistently demonstrated strong independence in character and judgement in fulfilling his responsibilities. Leveraging on his extensive experience in public services, building and project management, he has effectively provided invaluable guidance to the Board and Management on the strategic plans of the Company. The NC also considers the requirements outlined in the Singapore Code of Corporate Governance 2018 and its Practice Guidance and is confident that Dr Teo will be able to lead and ensure the effectiveness of the Board.

Dr. Teo has a distinguished career in public services spanning over 23 years as a long-serving politician and former Member of Parliament for various constituencies. He also served as the Mayor of the North West District in Singapore from 2001 to 2020, overseeing Community Development Programmes for approximately 906,000 residents. He had served on the Parliamentary Public Accounts Committee for over 8 years and had worked closely with the Auditor-General's Office ("AGO") to ensure corporate governance and public accountability of all government agencies and its related institutions.

During his tenure as Mayor, the North West District clinched notable awards such as the ASEAN Environmentally Sustainable Cities Award in 2014 and 2017, and the Singapore Environment Council-Lee Foundation Singapore Environmental Achievement Award (Public Sector) in 2017. Dr. Teo also held the position of Chairman of the Holland-Bukit Panjang Town Council from 2001 to 2020 and was the Coordinating Chairman of 15 People's Action Party ("PAP") Town Councils from 2006 to 2020, taking charge of township management for about one million public housing flats. Throughout his political career, he chaired various Government Parliamentary Committees in National Development, Environment and Water Resources, Home Affairs, Law, and Foreign Affairs.

From his prior experience, Dr. Teo has developed extensive expertise and a track record in implementing Green and Smart City initiatives including M&E retrofitting solutions to create sustainable buildings and communities.

Dr. Teo's broad background and network in the built environment sector equip him with the capability to impart fresh industry insights, drive thought leadership, and leverage industry connections to elevate the Group.

Under the leadership of Dr. Teo Ho Pin, the Group remains committed to undertaking a comprehensive review of our competitive advantages. This review aims to strengthen our market position and identify new growth drivers within our core businesses. The Group is continually assessing the Group's investment portfolio and optimising its capital allocation. This may involve developing a divestment strategy for non-core and non-synergetic investments and redirecting capital from these divestments into core businesses, new investment opportunities or returning it to shareholders.

The Group's profit margin had been adversely impacted by the significant increase in cost of construction and persistent high interest rate as a result of the COVID-19 pandemic, global supply chain disruptions and heightened geopolitical tensions. The situation was further exacerbated when certain main contractors could not continue their operations, prompting the Group to make loss allowances for these trade receivables. Management did retrospective review on project performance and experiences, and re-positions itself to avoid repeated pitfalls, and focuses on improving its productivity and strengthening its core competencies within its core businesses to create sustainable growth and profitability for the shareholders.

The property market in People's Republic of China ("PRC") is experiencing a downturn marked by declining prices and reduced sales volume. The Group's associate, Dalian Shicheng Property Development (S) Pte Ltd ("DSPDS") had collaborated with an external management consultancy company to strategise marketing campaign and partnered with local property agencies to promote and sell off the remaining unsold completed properties. In addition, DSPDS is exploring collaboration opportunities with established local companies to make effective use of the vacant land plots located in PRC. The Group remains cautious and will not commence work on any new phases until the market shows clear signs of recovery.

Question 2:

Would management provide shareholders greater clarity on the following operational and financial matters? Specifically:

i. Projects: The group successfully secured projects during the year, including public housing developments located at Ang Mo Kio, Jurong East, Punggol North, Queensway, Ulu Pandan and Yishun and an industrial building at Jalan Besut. As at 31 March 2024, the group's order book stood at $134.1 million. Gross profit margin for the works completed in FY2024 was 1.4%. What strategies are in place to ensure these projects provide adequate profit margins in the face of escalating inflation and rising manpower costs?

ii. Sustainability: Can management elaborate on the innovative and eco-friendly services and products introduced in the M&E segment? How is management evolving the group to meet higher standards for sustainable solutions and products?

iii. Vessel ownership and chartering: The group experienced an increase in the charter rate of the bulk carrier, Crown 58 'Supramax' Bulk Carrier named "Hai Jin", due to higher demand. Despite the increase in charter rate, the $1.5 million in allowance on the advances to Gold Hyacinth in previous years was not reversed. The carrier has a deadweight of 58,000 tons and a net tonnage of 19,582 tons. Has management explored options to monetise its 30% stake in Gold Hyacinth Development Pte Ltd, which owns and operates the 2013-built carrier?

iv. Workers' Dormitory: During the financial year, the group equity accounted and recognised a share of profit of $19.6 million, of which $19.5 million arose from the investment in Nexus, which operates a workers' dormitory in Singapore. As disclosed in Note 15 to the financial statements, Nexus's profit for the financial year increased to approximately $107,614,000. The group has reversed the loss allowance recognised on the advances to Nexus in prior years. When does management anticipate dividend distributions from this investment?

Company's response:

i. With a strong track record in the residential market segment, the Group adopted a focused strategy and successfully secured various public housing development projects during FY2024. We conduct cost analyses for the projects to identify potential areas for cost savings which involve negotiating better pricing with the suppliers and subcontractors for mutually beneficial terms and streamlining processes to optimise efficiency. In addition, we have implemented a new enterprise resource planning ("ERP") system to track material usage and costs more effectively. We are also dedicated to enhancing the skills and expertise of our workforce by investing in our employees through continuous training and professional development initiatives. This initiative aims to improve employee productivity and overall project progress.

ii. The Group offers efficient and effective green M&E retrofitting solution which leverages a seamless network of Internet of Things ("IoT") sensors and use of Artificial Intelligence ("AI") to monitor and manage building energy consumption and key parameters via partnership with a local technology firm. In addition, we source green products certified by reputable organisations such as Singapore Green Building Council ("SGBC") for use in the M&E engineering business segment. We continue to stay updated on regulatory updates and collaborate closely with our business partners to identify critical points along the value chain, implementing measures to reduce carbon emissions.

iii. The Group is continually assessing its investment portfolio and will seek to divest non-core assets at an opportune time.

iv. Nexus' profit for the financial year increased to approximately $107,614,000 had primarily resulted from Nexus' use of the fair value model to measure its investment properties based on a valuation performed by an external professional valuer. The significant gain in fair value recorded in profit or loss was due to the high demand in the migrant worker population, positive and healthy rental and occupancy rates. Such fair value adjustment is non-cash in nature. The ability of Nexus to distribute dividends is subject to repayment of bank loans and shareholders loans after prioritising the financial needs required for its operations.

Question 3:

The company last paid a dividend in 2016, amounting to $0.005 per share. No dividend has been recommended for FY2024 to preserve the group's working capital and prioritise for use in the group's operations, especially given the challenging economic outlook with increasing construction and financing costs.

i. Can the board provide a detailed overview of the discussions and considerations that led to the decision not to declare a dividend for FY2024? What specific financial metrics and strategic priorities were evaluated in making this decision?

ii. Has the board reviewed the group's profitability and its ability to generate long-term value for shareholders, including the ability to create sustainable profits and generate the needed cash flow to deliver steady returns to its capital providers in the form of regular dividends?

Company's response:

The Board has given careful consideration of the future profitability, liquidity and cash flows of the Group to ensure it has sufficient financial resources to support its core businesses which include larger-scale M&E projects requiring extensive and specialised equipment, and its anticipated relocation to a new business premise before the existing lease expires in 2025. In addition, the Board reviews the strategic growth plan proposed by Management to ensure the Group has the potential to generate long-term value for the shareholders. The Board recognises the importance of providing returns to shareholders. The Board will continue to monitor the Group's cash flow and make dividend payment decisions after due consideration to the Group's financial needs.

BY ORDER OF THE BOARD

Chua Eng Eng
Managing Director
26 July 2024