



KLW HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
 (Company Registration No. 199504141D)

RESPONSE TO QUESTIONS FROM SIAS

The Board of Directors ("**Board**") of KLW Holdings Limited ("**Company**", and together with its subsidiaries, "**Group**") refers to the questions received from Securities Investors Association (Singapore) ("**SIAS**") on 23 July 2018 following its review of the Company's annual report for the financial year ended 31 March 2018 ("**FY2018**").

The Company wishes to provide its responses as set out below:

Q1. As noted in the Chairman's Statement, the cyclical nature of the group's Doors business was the reason for the 25% drop in revenue for the segment. The group has not been able to bag any meaningful new contracts since the last financial year as the Singapore residential development market has slowed down.

While it was mentioned that the local residential development market has slowed down, the recent flurry of en-bloc sales has prompted a new set of cooling measures for the property market.

Question	Company's Response
<p>(i) Can management help shareholders understand if it has evaluated the opportunities in the market? What are management's plans to ensure new contracts from the upcoming property launches?</p>	<p>Management has undertaken a review of the opportunities in the market and will continue to work on tenders for local residential development market. In addition, Management has also started marketing for the commercial and public projects, as the business cycle for which (from the tender process until completion) may be shorter and may allow faster revenue recognition by the Group.</p> <p>In addition, Management is working to collaborate with other industry players for profitable contracts.</p>
<p>(ii) With the acquisition of the remaining 30% share capital of KLW Resources Sdn. Bhd. ("KLW Resources") from Koperasi Permodalan Felda Malaysia Berhad ("Felda"), what changes will be made to KLW Resources?</p>	<p>After completion of the acquisition in February 2018, the Company has full control and ownership of the Door business as the sole shareholder of KLW Resources and will be able to develop and execute business strategies quicker. The Board is still in the midst of formulating new strategic initiatives in relation to KLW Resources and will update the shareholders as and when appropriate.</p> <p>On top of that, as mentioned in the Company's annual report, there is long-term savings for the Group of a yearly sum of RM1,360,000 (equivalent to the 8% preference dividends per annum).</p>

Question	Company's Response
<p>(iii) In addition, in Note 17 (page 90 – Inventories), inventories write-down of \$819,731 (2017:\$177,669) was recognised as an expense in “cost of sales”. Can management elaborate further on the significant increase in inventories written-down in FY2018? What changes have been made to the group’s systems and processes to reduce inventory obsolescence?</p>	<p>During FY2018, Management performed an extensive review on its inventory and identified some damaged inventories. Hence a one-off adjustment was made in FY2018.</p> <p>In conjunction with such review, the Group has also implemented a prudent inventory policy setting out a more clearly defined approach in terms of stock obsolescence.</p>

Q2. For the group’s foray into the property business, the group has two on-going projects in Melbourne and South Jakarta. Would the board/management provide shareholders with better clarity on the following:

Question	Company's Response
<p>(i) Lincoln Square: When does the group expect to be informed of the outcome following the submission of the complete package of the feasibility studies to the Melbourne City Council? Can management help shareholders understand the entire process to obtain the necessary permits and licenses? When is the soonest that all the permits can be obtained? What are the expected costs to be incurred?</p>	<p>To commence construction works for the redevelopment of the property, the material permits and licences required to be obtained by the Group include:</p> <ul style="list-style-type: none"> (i) the planning permit to be granted by Melbourne City Council in relation to the use/development of the property; and (ii) the building permit to be granted by building surveyor prior to commencement of construction work. <p>The Group has submitted the complete package of the feasibility studies to the Council for its review and is awaiting completion of such review by the relevant authorities by the fourth quarter of the year. Subject to such review, the Council will grant the planning permit to the Group.</p> <p>Thereafter, as the Group intends to undertake pre-sales, the Group's design team will prepare sales and marketing materials as well as detailed plans for this purpose. After completion of the pre-sales, the Group will finalise the detailed drawings for the construction and obtain the building permit for commencing the construction works. Given the foregoing, the Company is unable to advise on the timing by which the Group will obtain the building permit.</p> <p>The final costing is still work-in-progress and subject to further discussion.</p> <p>The Company will announce any material development via SGXNET on the above as and when appropriate.</p>
<p>(ii) South Jakarta: Similarly, can management map out the major milestones for the development in South Jakarta? What is the total capital investment for the project?</p>	<p>As announced by the Company, in FY2018, the Group’s wholly-owned subsidiary had, together with a local Indonesian company, formed a joint venture company, PT Ambertree Development Jakarta (“PTADJ”). PTADJ has since acquired</p>

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	<p>land parcels which covers an aggregate area of 7,456m² amounting to S\$28.4 million. PTADJ has also obtained the location licence from the Indonesian government on 23 May 2018 which will permit PTADJ to build apartment and office buildings on the Land.</p> <p>The final costing is still work-in-progress as the Group is undertaking a feasibility study to fully utilise the potential of the land parcels and the appropriate design to meet the latest property market demand.</p> <p>The Company will announce any material development via SGXNET on the above as and when appropriate.</p>
<p>(iii) Property development: As the group scales up its property development business, can management help shareholders understand its experience and track record in property development? What is the level of due diligence carried out prior to investments being made, especially as the group enters a new city/country?</p>	<p>Notwithstanding that the Group does not have a track record in property development, the Company may benefit from the experience and network of its existing executive directors as well as its local property directors and partners.</p> <p>In Indonesia, the Company is working with reputable local partners in the property development market, allowing the Group to tap on the expertise and network of its joint venture partners. In Australia, the Group's local director (who is by profession a qualified architect) is working together with a team of professionals engaged by the Group, comprising architects, designers and building surveyors, each with a track record in the Melbourne local property development. This allows the Company to tap on the professionals' expertise and professional guidance on the Melbourne, Australia's market.</p> <p>In respect of due diligence carried on potential investments, the Group would conduct and commission the necessary due diligence (legal and financial), land appraisal and feasibility studies.</p>

Q3. On 6 July 2018, the company announced that there were discrepancies between the audited financial statements and the unaudited financial statements for the financial year ended 31 March 2018.

Reasons given included:

- **Reclassification of "Land held for development" to "development properties" under "Current assets" for a better presentation to reflect the intention of the land acquired for property development activities**
- **Reclassification from "Prepayments, trade and other receivables" under "Current assets" to "Subsidiaries" as part of the loan has been treated as a net investment in the subsidiary and thus included as "Non-current assets"**
- **Reclassification from "Loan from non-controlling interest" to "cash flows from financing activities" as it is considered to be under financing activities during finalisation of audit**
- **Reclassification from "Prepayment of borrowings" to "Proceeds from borrowings" in order to present the total as a gross amount**

On 6 July 2017 and on 13 July 2016, the Company announced that there were material differences between the audited financial statements and the unaudited financial statements for the financial year ended 31 March 2017 and 31 March 2016 respectively as well.

Question	Company's Response
<p>(i) As the directors have responsibilities to oversee the group's financial reporting process, can the directors, especially the directors in the audit committee, help shareholders understand their individual and collective efforts in the preparation of the group's financial statements to give a true and fair view in accordance with the provisions of the Act and FRSs?</p>	<p>The Audit Committee ("AC") of the Company would review the financial statements prepared by the management on a quarterly basis and subject to the AC's recommendations, the Board would approve such financial statements at the quarterly board meetings.</p> <p>The AC conducts regular discussions and meetings with the Company's Management and External Auditors, and further meets with the External Auditors to the exclusion of the senior management.</p> <p>The Board and AC proactively and regularly engages with the External Auditors to obtain periodic updates and gain guidance on any accounting matters and methodologies that require clarification with a view to improve the Group's financial reporting function.</p>
<p>(ii) Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?</p>	<p>The AC undertakes an ongoing review process on the internal financial function of the Group based on the current and evolving operations and requirements of the Group.</p> <p>In respect of the Group's door business, the AC is satisfied that the Group is currently adequately staffed with qualified and experienced finance personnel (some of whom are also long-time staff of the Group for the door business). The AC will continue to assess whether the internal finance team is adequately resourced with the relevant capabilities to meet the Group's requirements for its entry into the property development business.</p> <p>With reference to the recent discrepancy between the Group's audited and unaudited financial statements for FY2018, certain reclassifications were proposed by the Company's Independent Auditor, Baker Tilly TFW LLP ("Baker Tilly") during its audit, for better presentation of financial information, taking into account the commercial intentions of the Company. As mentioned, these reclassifications did not result in any financial impact to its Group's profit and loss as well as its net assets. Baker Tilly's audit opinion on the Group's financial statements ended 31 March 2018 remains unqualified.</p> <p>Please refer to the announcement on the reclassifications for further information on the rationale for the same.</p>
<p>(iii) What changes has the AC made to the group's systems and processes to improve the quality and accuracy of the financial statements?</p>	<p>In addition to the AC working closely with the External Auditors, the AC had recommended, and the Company has engaged, an independent and reputable internal audit firm ("IA") to assist the AC in monitoring the Group's internal controls over financial reporting.</p>

Question	Company's Response
	<p>The current AC has implemented the following changes:</p> <ul style="list-style-type: none"> (a) Increased its review and oversight function for the financial reporting process, resulting in a more thorough analysis of the financials. (b) Created greater accountability of the staff for the work done during the preparation of accounts. (c) Put in place a program where the key finance staff from the head office regularly visits the subsidiaries outside Singapore to ensure smoother flow of communication between the various finance teams.

By order of the Board
KLW Holdings Limited

Terence Lam
Executive Director
14 August 2018

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, R & T Corporate Services Pte. Ltd. ("**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement including the accuracy or completeness of any of the figures used, statements, opinions or other information made or disclosed.*

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