



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 2022

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 2022 (“FY2022”). We would like to thank SIAS for submitting questions ahead of the Company’s Annual General Meeting to be held on 29 July 2022 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:

The title of the 2022 annual report is “Transformation taking flight”. In the corporate profile, the company highlights that it has, over the past four decades, grown from strength to strength to expand beyond its core businesses, and successfully ignited new growth engines to propel the group for greater shareholders’ value.

The executive chairman, Mr. Chua Kim Hua, was re-designated as the non-executive chairman with effect from 1 July 2022.

- i. With Mr. Chua Kim Hua stepping back into a non-executive role, how will his executive responsibilities be redistributed to the other executives?
- ii. What is the depth of the group’s leadership bench strength in the core functions of the group, such as engineering, operations, project management, safety, etc?
- iii. In particular, has the group been able to recruit and retain younger talents in the mechanical & electrical (“M&E”) engineering services segment who then can be groomed to fill key leadership positions in the future?

Company’s response:

Ms. Chua Eng Eng, the Group’s Managing Director succeeds Mr. Chua Kim Hua’s executive responsibilities since his re-designation to non-executive Chairman with effect from 1 July 2022. She was first appointed as director of the Company in 2000 and has been the managing director since 2002. Over the past 20 years, she has gained an in-depth understanding of the business and the operating environment of the Group. She oversees the day-to-day operations, works closely with the Board, management team, employees, and key business partners, and takes on a pivotal leadership role in setting and implementing the strategy.

The Group always keeps the Board and management’s succession and rejuvenation plan in view. It is important to recruit, retain and groom capable talents to take on leadership positions. While Mr. Chua Hai Kuey, the Group’s Executive Director will continue overseeing the core Mechanical &

Electrical (“M&E”) engineering services business, he is supported by Mr. Chua Kok Chuan and Mr. Er Soon Kiat, Joe who were appointed as directors of the Group’s wholly owned subsidiary, King Wan Construction Pte Ltd (“KWC”) in 2016. Both Mr. Chua Kok Chuan and Mr. Er Soon Kiat, Joe first joined KWC as engineers and were promoted to directors of KWC in 2016 in recognition of their valuable contributions to the Group’s M&E engineering services business. Both have worked with KWC for more than 20 years.

It is a continuous process that the Group identifies suitable employees who can be groomed to take on leadership positions in the future. Refer to Table 1 and Table 2 on the Group’s employee age demographic and employee tenure in FY2022 respectively below which show that the Group can recruit and retain younger employees

Table 1: Employee Age Demographic

Age range	FY2022
20 to 34	34%
35 to 50	43%
51 to 61	16%
62 to 74	7%
75 to 82	*
Total	100%

* Less than 1%

Table 2: Employee Tenure

No. of years	FY2022
1 to 5	55%
6 to 10	22%
11 to 20	13%
More than 20 years	10%
Total	100%

Question 1 (Continued):

In the company’s response to SIAS’ queries¹ on the annual report for FY2020, management stressed that the group has more than 40 years’ experience in M&E engineering services with proven track records of various project completion ranging from residential to complex mixed development.

However, despite the group’s “good reputation” and “experienced employees” which allowed the group to secure a good stream of projects, the group faced challenges such as high labour cost, reduced profit margin, loss allowance on trade receivables.

¹https://links.sgx.com/FileOpen/King%20Wan_Response%20to%20Questions%20from%20SIAS_Final.ashx?Ap p=Announcement&FileID=633108

The group's segmental profit/(loss), return on total assets employed, total group revenue and (loss)/profit attributable to owners of the company in the past years are shown below:

	Plumbing and sanitary (\$'000)	Electrical (\$'000)	Return on Total Assets Employed (%)	Total revenue (\$million)	(Loss)/profit attributable to owners of the company (\$million)
FY2010	2,937	(177)	9.6	70.5	9.5
FY2011	1,379	2,817	14.4	70.4	14.5
FY2012	3,540	4,258	13.1	57.2	14.0
FY2013	4,601	2,232	5.6	66.3	7.1
FY2014	3,433	2,918	5.0	95.4	6.7
FY2015	3,641	507	10.5	85.2	17.1
FY2016	8,706	1,858	(11.7)	100.8	(17.9)
FY2017	4,511	4,694	0.8	91.9	1.0
FY2018	4,016	700	(3.8)	81.8	(4.8)
FY2019	3,680	(396)	1.9	79.3	2.4
FY2020	5,282	(1,374)	0.4	72.4	0.4
FY2021	(110)	(2,219)	(1.3)	45.9	(1.5)
FY2022	1,506	(621)	0.5	77.2	0.6

(Compiled from company annual reports; emphasis added)

As shown in the table above, the group's performance in the electrical segment has been relatively weak since FY2018, with the segment reporting large segment losses in the past 4 years. The segment losses add up to S\$(3.9) million between FY2018 to FY2022.

- iv. What are the challenges e.g., manpower-related, technology-related in the electrical segment that eroded the group's profitability in the past 4-5 years? Has the group leveraged on new technology/productivity tools?
- v. Is management sufficiently focused on profitability in the electrical segment instead of securing new projects for additional revenue?
- vi. Are the right incentive systems in place to drive efficiency and productivity to achieve profitability and value creation instead of pursuing revenue growth and market share?

Company's response:

The competition in the electrical segment has become keener and this has undoubtedly eroded the profitability of the projects to a certain extent as pricing plays a key consideration. In addition, the costs of the manpower and materials have increased significantly in the face of adversity arising from the COVID-19 pandemic and massive disruptions in the global supply chain. The situation was further exacerbated when certain subcontractors were unable to sustain their operations amidst the unprecedented challenging environment and the Group took over their work, and this resulted in higher costs.

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 to create sustainable growth and profitability for the shareholders. The Group has continued its effort to leverage on new software to improve the costing methodology and design and documentation process.

On a continuing basis, the management reviews and adjusts the incentives to align employees' key performance indicators with the Group's objective to drive efficiency and productivity to achieve profitability and value creation for the shareholders that is sustainable.

Question 1 (Continued):

At the group level, from 2010 to 2015, the average return on total assets employed was 9.7%. In the next 7 years from 2016 to 2022, the average return on total assets employed fell to negative (1.9)%. Total losses from 2016 to 2022 add up to S\$(19.8) million.

- vii. What are the reasons for the significant drop in return on total assets employed in the past 5-7 years?
- viii. Has the group maintained its competitiveness given that the company has four decades of industry-related experience?

Company's response:

The significant drop in return on total assets in the past 7 years between 2016 and 2022 was mainly a result of the following:

- a. Loss allowances of S\$18.5 million made for amounts due from associate, Dalian Shicheng Property Development (S) Pte Ltd in relation to the property development in Dalian, PRC;
- b. Loss allowances of S\$7.4 million made for amounts due from associate, Nexus Point Investments Pte Ltd in relation to operations of workers' dormitory in Singapore;
- c. Impairment loss of S\$12.7 million in equity securities of Kaset Thai International Sugar Corporation Public Company Limited ("KTIS") listed on the Stock Exchange of Thailand due to decrease in share price of KTIS shares before adoption of FRS 109 *Financial Instruments*; and
- d. Operating losses arising from the halt of construction activities during circuit breaker and increase in construction costs as a result of the COVID-19 pandemic.

With our core competencies in M&E engineering services and proven track records including Jewel Changi Airport and Singapore Sports Hub, we maintain long-term working relationship with several reputable main contractors that are graded A1 by Building and Construction Authority, and continue to secure projects from these main contractors. In addition, we have added new reputable main contractors to our clientele base over the last 5 years.

Question 2:

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

- i. Manpower: How badly affected is the group by the manpower shortage in Singapore? What are management's plans to mitigate the manpower shortage and the increasing labour costs?
- ii. Order book: As at 31 March 2022, the group's order book stood at S\$199.9 million. In FY2021 and FY2020, the order books were S\$156.9 million and S\$181.0 million respectively. How much of the group's pre-pandemic order book has yet to be completed?

- iii. Call on performance bond: When is the final resolution of the injunction application expected? As noted in the company's announcement dated 3 June 2022, the group is claiming work done under contract of S\$0.5 million from Laguna Hotel Holdings Pte Ltd (LHH), in addition to the retention monies of S\$0.6 million withheld by LHH. What are management's efforts to collect the outstanding monies from LHH? Have these amounts been provided for or impaired in the financial statements?
- iv. Dormitory: What is the occupancy rate of the Tuas South Dormitory? Given that Nexus Point Investments Pte Ltd is in net liabilities position of S\$(33.4) million, what are the chances that the group will be able to recover any/part of its investment? The current carrying amount of this investment is S\$0.
- v. Vessel: Similarly, Gold Hyacinth Development Pte. Ltd. ("GHD") is in a net liabilities position of S\$(7.7) million and the current carrying amount of this investment is also S\$0. With charter rates increasing from July 2022 as a result of an improvement in demand for dry bulk commodities, would management be looking to monetise its 30% stake in GHD? What are management's plans to recover the advances to GHD (gross amount of S\$4.4 million before allowance)?

Company's response:

- i. The manpower shortage has not been fully addressed by the gradual easing of the border restriction which is progressing at a pace slower than expected and this has posed difficulties for the Group to clear up the backlog of projects. The Group invests in its human capital by continuously training the core workforce on technical skills, and technology infrastructure to improve the costing methodology and design and documentation process.
- ii. As at 31 March 2022, approximately 40% of the Group's order book comprises of pre-pandemic projects. In FY2022, the Group secured new M&E contracts amounting to S\$111.2 million.
- iii. At the date of this announcement, the final hearing for the Injunction Application (the "Hearing") has yet to take place. The Group had informed LHH that the termination of the contract was wrongful and engaged an independent lawyer to contest the call on the performance bond as the Group has reasonable grounds to dispute the call on the performance bond and allegations made by LHH. Pending the outcome of the Hearing, the Group has not provided for or impaired the receivables due from LHH as at 31 March 2022. Concurrently, the Group is considering its legal options in these regards with its lawyer and will provide updates when there are material developments on this matter.
- iv. At the date of this announcement, the occupancy rate of the Tuas South Dormitory is approximately 97%. Management had considered the financial position of Nexus Point Investments Pte Ltd ("Nexus") as at 31 March 2022 and estimate the future cash flows based on the valuation of the Tuas South Dormitory which is the principal operating asset of Nexus carried out by an external professional valuer. The fair value of the dormitory was arrived at (i) by reference to market evidence of transacted prices per square metre in the open market for comparable properties, adjusted for differences such as location, size, tenure, age and condition; and (ii) income capitalisation method. Barring unforeseen circumstances, the management expects the Group would be able to recover its carrying amount of advances to Nexus amounting to S\$9.6 million as at 31 March 2022.

- v. From July 2022 onwards, the Group has negotiated for a higher charter rate which is approximately 86% increase compared to the previous charter rate. Looking at short term, the increase in charter rate with effective from July 2022 would not be sufficient for GHD to recoup the cumulative losses incurred in the past years. The Company will consider the disposal of vessel whenever there is good opportunity.

Question 3:

On 3 February 2022, the company announced the appointment of Mr. Chua Yong Bin as the chief risk and strategy officer of the company. Mr. Chua Yong Bin is the son of Mr Chua Hai Kuey (executive director), nephew of Mr Chua Kim Hua (chairman) and cousin of Ms Chua Eng Eng (managing director). As noted in the SGX announcement², Mr. Chua Yong Bin is also the director and co-founder of OLPN Private Limited.

- i. Can the director/nominating committee (NC) help shareholders better understand if Mr. Chua Yong Bin is committing full-time to the role? How much of his time will be spent on OLPN Private Limited?
- ii. Can the board/NC help shareholders understand if the role of the chief risk & strategy officer is a newly created appointment for Mr. Chua Yong Bin? Prior to his appointment, how was the risk assessment for the group carried out?

In addition, the SGX announcement template requires the company to disclose the selection criteria and the search and nomination process.

- iii. Can the company/NC disclose the selection criteria and the search and nomination process as required in the SGX announcement template? How many candidates were shortlisted and interviewed?
- iv. Separately, the company is seeking shareholders' approval for directors' fees of S\$272,000 for the financial year ending 31 March 2023, an increase of close to 60% from the approved amount of S\$172,000 for FY2022. Given the current challenging operating environment and difficult market conditions, can the board help shareholders understand the reasons for the increase?

Company's response:

- i. The Board and NC confirmed that Mr. Chua Yong Bin is committed full-time to the role as the chief risk and strategy officer ("CSO") of the company. Mr. Chua Yong Bin is not involved in the day-to-day operations of OLPN Private Limited ("OLPN") and thus spends an insignificant amount of time in OLPN.

- ii. The role of the CSO is a newly created position in the Company. The CSO will need to work closely with the Board in setting the strategic direction for the Group by developing an in-depth understanding of the Group's risk profile.

The Company has in place an enterprise risk management ("ERM") team made up of the various heads of departments including project, tender and finance to assess the adequacy and effectiveness of the ERM framework and processes. Management will report their assessment to the Audit Committee on a regular basis. CSO is appointed to provide a fresh perspective to the ERM framework and processes, reorganise the reporting structure and consolidate the risk assessment to better position the Group on focusing its resources to tackle manpower and operational challenges, as well as to capture opportunities.

- iii. Before joining the Company, Mr. Chua Yong Bin had worked with JP Morgan for 9 years as an Investment Advisor, advising clients on portfolio construction and investments across various asset classes which involved analysing various risk profiles. The management recommended Mr. Chua Yong Bin to the Board to consider for the new CSO role. Each Independent Director interviewed Mr. Chua Yong Bin. The Board reviewed Mr Chua Yong Bin's academic, professional qualifications and working experience, and is satisfied that he is a good fit for the new CSO role and will be able to contribute the relevant knowledge, skills and experience to the Group.
- iv. The proposed directors' fees for the Independent and Non-Executive Directors at S\$172,000 remains the same as the previous financial year. The S\$100,000 increase in proposed directors' fee pertains to fee for Mr. Chua Kim Hua who has re-designated from Executive to Non-Executive Chairman with effect from 1 July 2022. As a Non-Executive Chairman, Mr. Chua Kim Hua will serve as a mentor and advisor to the Board and management. Concurrently, Mr. Chua Kim Hua will cease to receive remuneration from the Company. The RC considered Mr. Chua Kim Hua's continuing role and responsibilities as the Non-Executive Chairman of the Company and the conditions within the industry and recommended the proposed directors' fees to the Board for consideration. The Board reviewed and accepted the RC's recommendation.

BY ORDER OF THE BOARD

Chua Eng Eng
Managing Director
26 July 2022