

**Issuer:** King Wan Corporation Limited

**Security:** King Wan Corporation Limited

**Meeting details:**

**Date:** 28 Jul 2016

**Time:** 10:00 AM

**Venue:** 8 Sungei Kadut Loop Singapore 729455

## Questions on strategy, financials and operations

1. The group's core M&E business is extremely well managed and is the core driver of value for the group. All three segments (plumbing and sanitary, electrical and toilet rental) are profitable and generate good cash flow. On the other hand, the investment segment has been less stellar. **Can the board explain the investment strategy, the capital allocation policy and the hurdle for investments?** The group has made investments in vessel ownership, residential and commercial properties in various countries and workers' dormitory. There appears to be no deep expertise in the management team to oversee and manage these new forays. Looking at the past investments in various unrelated industries, there is neither synergy nor an overarching investment approach. **Would the board consider streamlining the group to focus solely on the core M&E?** Sufficient capital can be allocated to the M&E business to allow it to flourish and become the premier M&E pure-play listed on the SGX while excess capital can be distributed back to shareholders.
2. Could the board also clarify on the following?

### Disposal of Meadows Property (S'pore) Pte Ltd (MPS):

- In the section "Events after reporting period" (page 88 of the annual report), it was reported that the group's (40%) associate Meadows Bright Development Pte Ltd (MBD) had disposed off its entire **88.89% equity holding** in MPS. In the Business review (page 12 of the annual report), it was stated that "Meadows Bright has, in May 2016, completed the sale of Meadows Property (S'pore) Pte Ltd, its **wholly-owned subsidiary** and developer of the Starlight Suites project." **Can the board explain the difference in the ownership of MPS?**
- More importantly, on page 88 of the annual report, it was disclosed that MDB had disposed off MPS for a cash consideration of \$14.9 million. The Straits Times reported (on 26 May 2016) that the buyer had paid \$48 million for the 23 units at Starlight Suites. **Can the board reconcile the numbers for the benefit of shareholders? Specifically, how much liabilities were in MPS? What was the waiver amount of receivables due from MPS? What was the net cash inflow to MBD following the sale of MPS shares?**
- The average sale price was reported to be \$1,670 per sq ft (psf). Given that the properties are still being marketed at more than \$2,400 psf, had MPS tried its best efforts to sell the units by offering discounts? At 5% discount, the units would go for \$2280 psf. With 15% discount, the price would be \$2040 psf. At the sale price of \$1,670 psf, it is akin to giving a 30% discount to the buyer. The QC charges for the first two years would be just 8% and 16% respectively of the land cost. **Can the board clarify why it had approved such a drastic sale?**

### Performance of Dalian Shicheng Property Development (S) Pte Ltd (DSPL) (36.6% associate)

- The associate incurred a huge loss of \$60.9 million for 2016 (page 68).
- KingWan's share of this loss (\$22.3 million) was not recognized in the P&L because there is no legal obligation to make good the shortfall. This is the accepted accounting treatment although it does mean the loss has not been recognised and it is only reflected in the notes to the accounts.
- **What were the reasons for this huge loss?**
- **Were the accounts of DSPL qualified on going concern issues?**

### Allowance for amounts due from Dalian Shicheng Property Development (S) Pte Ltd (DSPS)

- Loans were made to DSPS for the development of residential and commercial units under phase 7 of the project. Advances to DSPS were \$4.2 million for the financial year ended 2013, \$2.4 million (FY2014) and \$4.1 million (FY2015).
- At the end of FY2015, including loans made to DSPS in prior years, the total loan amount advanced to DSPS was \$18.5 million (page 31 of the FY2015 annual report). In FY2015, the group recognised an allowance of \$12 million on the amounts due from DSPS. As such, at the end of FY2015, the loan to DSPS was recorded at \$6.5 million (after the \$12 million impairment).
- However, over the financial year 2016, the group continued to make advances of \$4.2 million to DSPS. And at the end of the year, the group made an allowance of \$10.7 million for the entire loan amount made to DSPS.
- At the end of the financial year 2016, the recoverable amount from DSPS has been marked down to \$0.
- In summary: For two consecutive years, the group loaned large sums of money to a 36.6% owned associates (\$4.1 million and \$4.2 million in FY2015 and 2016 respectively) and then recognised allowances of \$12 million in 2015 and \$10.7 million in 2016.
- **Can the AC confirm that they were made aware of these transactions prior to the loans being made? Please also explain the rationale of making loans to a 36.6% owned subsidiary and then recognizing allowances for the loans within the financial year, twice in two years?**
- **What is the board's strategy with regard to this investment? Granting more loans appears to be throwing good money after bad.**

Lastly, on page 56, under "Related Party Transactions", can board/management help shareholders understand the peculiar practice: "loans were advanced to joint ventures of the Group to enter into sale and purchase agreements with another associate of the Group, Dalian Shicheng Property Development Co., Ltd to purchase properties."

### Questions on governance and management

3. Two independent directors have served on the board since 2000 and 2001 and the third independent director has been on the board since 2008 (since 2006 as an alternate director). Notwithstanding that the nomination committee considers all three long tenured directors independent, **what are the board's renewal plans?** New directors with the relevant skillsets and competencies can provide fresh input, help to formulate strategies and reinvigorate the company.