Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: King Wan Corporation Limited

Stock code: 554

Meeting details:
Date: 29 September 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. The group's five-year financial highlight is shown on page 8 of the annual report and reproduced below. The group is an established player with a strong foothold in the Mechanical & Electrical ("M&E") engineering services segment.

As noted in the chairman's statement, the order book stood at $181.0 million as at 31 March 2020, an increase from $161.1 million a year ago.

However, revenue for the group has been on a decline in the past 5 years. From a turnover of $100.8 million in 2016, revenue dropped to $72.4 million in 2020, a compounded negative growth rate of 8% a year.

	2016 (S$million)	2017 (S$million)	2018 (S$million)	2019 (S$million)	2020 (S$million)
Profit or Loss Account					
Turnover	100.8	91.9	81.8	79.3	72.4
(Loss) Profit after Income Tax	(17.9)	1.0	(4.8)	2.4	0.4
Balance Sheet					
Cash and Cash Equivalents	5.6	13.1	8.5	5.0	8.2
Property, Plant and Equipment	4.3	4.0	5.0	4.2	2.1
Right-of-Use Assets	-	-	-	-	2.8
Other Assets	142.4	108.6	114.4	112.7	99.4
Total Assets	**152.3**	**125.7**	**127.9**	**121.9**	**112.5**
Short and Long Term Borrowings	51.1	30.9	38.7	36.0	34.9
Other Liabilities	24.8	19.3	19.8	16.1	21.8
Total Liabilities	75.9	50.2	58.5	52.1	56.7
Shareholders' Funds	76.4	75.5	69.4	69.8	55.7

(Source: company annual report)

(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.

(ii) **What is the reliance on unskilled/basic-skilled foreign workers?**

(iii) **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?**

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(iv) 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?**

In the past 5 years, shareholders' funds have dropped by 27% from $76.4 million to $55.7 million. The company has only paid out a dividend of 0.5 cents per share once in FY2017, totaling $1.7 million. One of the key values of the company is its "Commitment", including its commitment to shareholders to give them returns that exceed their expectations (page 3).

(v) **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*"?**

(vi) **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?**

Q2. Based on Note 38 (Segment information), as at 31 March 2020, the group has allocated its capital to the various segments in the following manner:

- Plumbing and sanitary: $21.07 million (FY2019: $23.57 million)
- Electrical: $9.5 million (FY2019: $9.16 million)
- Toilet rental: $2.1 million (FY2019: $2.24 million)
- Investment holdings: $66.21 million (FY2019: $77.73 million)

The performance of the investment segment will largely determine the performance of the group, given that 67% (FY2019: 69%) of the group's total assets are allocated to the segment. Already, the group has impaired its investments and suffered diminution in value for its investments.

The independent auditors have also highlighted a material uncertainty relating to going concern, and noted that the group is in a net current liability position, has breached certain debt covenants and is exposed to an increased liquidity risk in relation to its ability to repay its indebtedness as and when they fall due (page 46).

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In particular, the group has property development in Dalian which has suffered from keen competition from other developments.

The "assessment of corporate guarantees given for bank loans of an associate and a joint venture and assessment of the recoverability of debts owing by the associates and joint venture to the group" relates to the group's investment in property development and is a key audit matter (KAM) highlighted by the auditors.

The KAM can be found on pages 48 & 49 of the annual report. Some of the findings include:

Dalian Shicheng Property Development (S) Pte Ltd ("DSPDS") group (associate)	• full impairment of its equity investment in DSPDS • addition maximum exposure due to the corporate guarantee amounting to $10,568,000 for DSPDS
Soon Zhou Investments Pte Ltd ("SZI") group (joint venture)	• full impairment of its equity investment in SZI • outstanding receivables of $27,487,000 due from SZI • addition maximum exposure due to the corporate guarantee amounting to $3,787,000 for SZI
Chang Li Investments Pte Ltd, Li Ta Investments Pte Ltd and Soon Li Investments Pte Ltd ("CLLTSL") (associates)	• full impairment of its equity investment in CLLTSL • impaired receivables amounting to $2,616,000 from CLLTSL (net of loss allowance of $1,917,000)

From the consolidated statement of cash flow, it can be seen that the group has advanced to its associates and joint ventures $3.375 million in FY2020, $3.52 million in FY2019, $6.34 million in FY2018, $6.38 million in FY2017, $22.888 million in FY2016 and $14.7 million in FY2015.

(i) **Can management provide shareholders with a holistic overview of the group's property development project in Dalian? Please include pertinent details such as land area, number of units, percentage sold, stage of construction, number of development phases, average selling price etc of the "Singapore Garden" project. What is the average selling price of similar projects in the vicinity of Singapore Garden?**

(ii) **Please identify the partners in DSPDS, SZI and CLLTSL. Have the partners contributed capital to the joint venture/associates proportional to their shareholdings in these entities?**

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(iii) **What is the level of oversight and control over the group's associates and joint venture in China? Who is overseeing the group's investments in Dalian? What is the group's competitive advantage in developing mixed-use property projects in Dalian since the senior management team and the board does not appear to have any relevant property development experience in the PRC?**

(iv) **Can management help shareholders understand why it had advanced $1.175 million to its 36.6% associate, Dalian Shicheng Property Development (S) Pte Ltd ("DSPDS") group, and then fully impair the amount in the financial year? Did the associate also receive advances of $2.035 million from the other shareholders holding 63.4%?**

(v) **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?**

(vi) **What is the total amount impaired so far?**

(vii) **Can management help shareholders understand the capital/financial risks for the company/group in the worst case scenario? Assuming that the $27.5 million receivables from SZI are fully impaired, and that the group has to provide corporate guarantee of $10.6 million (for DSPDS) and $3.8 million (for SZI), along with a further impairment of $2.6 million for CLLTSL, what would be the financial position of the group?** As mentioned earlier, shareholders' funds have slipped to $55.7 million as at 31 March 2020. **Would there be a heightened insolvency risk for the group?**

(viii) **How much more capital has the group earmarked to support the Dalian project?**

(ix) **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?**

(x) **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?**

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Q3. In the corporate governance report, the company stated that it is dedicated to implementing the highest standards of corporate governance at all levels within the group and is committed to ensuring that the standards are maintained throughout so as to enhance the value for shareholders and the group in the long term (page 17).

The board comprises of three independent directors out of a total of six board members and the chairman of the board is Mr Chua Kim Hua, the founder of the group and executive director.

Provision 2.2 and 2.3 of the Code of Corporate Governance 2018 ("CG Code 2018") states the following:

Provision 2.2	Independent directors make up a majority of the board where the chairman is not independent.
Provision 2.2	Non-executive directors make up a majority of the board.

Pursuant to Rule 710 of the SGX Listing Manual, where there are variations from the Provisions of the CG Code, the issuer must explicitly state the provision from which it has varied, provide the reason(s) for the variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

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

(ii) **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?**

(iii) **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?**

(iv) **Would the NC elaborate further on the board's succession plans for directors?**

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^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)