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**Issuer:** Design Studio Group Ltd

**Security:** Design Studio Group Ltd

**Meeting details:**

Date: 26 April 2019

Time: 9.00 a.m.

Venue: 8 Sungei Kadut Crescent, Singapore 728682

**Company Description**

Design Studio Group Ltd is engaged in the manufacture, supply and installation of paneling products, such as kitchen and vanity cabinets, wardrobes, doors and door frames, and furniture components for local and overseas markets. The Company is also engaged in the provision of interior fitting-out services to hospitality and commercial projects. The Company's segments include residential property projects, hospitality and commercial projects, and distribution projects. Its residential property projects segment is involved in the manufacture, supply and installation of paneling products, such as kitchen and vanity cabinets, wardrobes, doors and door frames and furniture components for local and overseas markets. Its hospitality and commercial projects segment is engaged in providing interior fitting-out services to hotels, resorts, office, shops and bank branches. Its distribution projects segment relates to the distributorship of furniture products of reputable overseas brands.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=D11](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=D11))

1. As noted in the CEO's statement, the group's key focus in 2019 is to *"tender and win projects with a cash backed profit, and to execute them efficiently and to a quality standard expected by us and our customers"* (page 13).

The group reported a loss of \$26.4 million in FY2018 primarily due to 'one-off' costs (\$19.1 million).

- (i) **Would the board help shareholders understand if the restructuring has largely been carried out and the group is now focusing on optimising its operations?**
- (ii) The CEO had stated that the 'one-off' costs amounting to \$19.1 million affected the group in FY2018. **Would the company provide a breakdown of the \$19.1 million in 'one-off' costs?**
- (iii) **Are there any further 'one-off' costs to be recognised in FY2019?**
- (iv) In addition, as seen in the consolidated income statement, subcontractors costs jumped from \$40.8 million in FY2017 to \$101.1 million in FY2018 (page 44). The subcontractors costs increased by 148%, outpacing the 20.1% increase in the group's revenue. **Can the company explain the substantial increase in subcontractors costs?**
- (v) **For the benefit of all shareholders, please clearly articulate:**
  - a. **the new business model; and**
  - b. **identify the key value drivers in the key markets.**

**Please clearly state the group's value proposition and explain how it would be able to capture its fair share of value for shareholders.**

2. There have been numerous changes to the board and to the key management team.

In the board, Mr Roderick David Maciver resigned as non-executive director with effect from 20 July 2018 and Mr Marwan Anthony Shehadeh and Dr Adelle Maree Howse were appointed as non-executive director and independent director on 19 April 2018 and 1 February 2019 respectively.

In the key management team, Mr Ronald Kurniadi was appointed as acting chief financial officer on 1 December 2017 and re-designated to group chief financial officer on 1 May 2018 whereas Mr William Lim Wee Liang was appointed as General Manager (Singapore) on 23 August 2018 in place of Mr Chew Keng Meng who resigned on 19 July 2018. Mr Eddie Chua Wui Lik who resigned as chief financial officer with effect from 31 January 2018 was just appointed to the role on 3 April 2017.

- (i) **Can the board help shareholders understand if the changes in the board and the key management team disrupted the restructuring and/or the operations of the business?**

- (ii) Did the board evaluate if the group has the necessary human resources in place for the group to meet its objectives?**
- (iii) What guidance has the board given to management to improve on the execution of the group's strategic plans?**

On pages 14 and 15 of the annual report, the company provided the profiles of the directors but stopped short at introducing the key management personnel (KMP) of the group. Based on the remuneration disclosure, the key management personnel are (page 29):

- David Potts
- Ronald Kurniadi (Group chief financial officer)
- Eugene Yapp
- William Lim Wee Liang (General manager (Singapore))
- Don Cunningham
- Nick Potts

- (iv) Would the company consider providing the profiles of the KMPs in the annual report so that shareholders can understand the management depth of the group?**

3. On 29 March 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 23 February 2019) and the audited financial statements for FY2018 after the finalisation of audit.

The adjustments resulted in additional loss before tax of S\$2,474,000 to FY2018.

The changes included:

- Revenue was reduced by S\$1,650,000, due to lower percentage of progress (vs initial estimate)
- Additional provision for onerous contracts of \$924,000
- A write back of trade and other payables of \$100,000
- Reclassification of expenses by their appropriate nature: S\$715,000 relating to provision for onerous contracts was re-classified from sub-contractors cost to other expenses
- S\$301,000 was reclassified from other expenses to staff cost
- S\$200,000 relating to bank charges was re-classified from finance costs to other expenses
- Impairment loss on financial assets and contract assets of S\$834,000 and reversal of impairment loss on financial assets of S\$1,070,000 were re-classified from other expenses

The changes made during the finalisation of audit included some basic accounting classification, such as reclassifying bank charges from finance costs to other expenses.

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International) (“SFRS(I)”) and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

- (i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the Act and SFRS(I)?**
- (ii) Has the audit committee evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (iii) Would the members of the audit committee (AC) help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?** The board has stated that the AC members have adequate, relevant and recent accounting or related financial management expertise and experience to discharge the AC’s functions (page 31).
- (iv) Can the AC update shareholders on the improvement made/to be made to the group’s financial reporting systems and processes?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Design%20Studio%20Group%20Ltd&cid=6569,4526>

The company’s response could be found here: -----