



Securities Investors Association (Singapore)

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Issuer: Sysma Holdings Limited

Security: Sysma Holdings Limited

Meeting details:

Date: 16 November 2018

Time: 10.00 a.m.

Venue: Casuarina Room, Level 1 Main Lobby, Serangoon Gardens Country Club, 22 Kensington Park Road, Singapore 557271

Company Description

Sysma Holdings Limited, an investment holding company, provides building construction services to the private sector in Singapore. It operates through Building Construction and Property Development segments. The company offers construction services for residential projects, such as landed housings, condominiums, and apartment buildings; commercial projects, including office buildings, car showrooms, shopping malls, hotels, spas, and country clubs; conservation projects comprising heritage and conservation buildings; institutional projects consisting of bus stops and places of religious worship; industrial projects comprising factories and warehouses; and educational institutions, such as schools and institutes of higher learning. It also develops residential and commercial projects. The company was founded in 1986 and is based in Singapore. Sysma Holdings Limited is a subsidiary of Xiang Investment Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5U0)

1. As noted in the Chairman's statement, as at 31 July 2018, all the residential units in the group's three property development projects have been fully sold. As disclosed in Note 10 (page 62 - Properties held for sale), the group is carrying the remaining commercial units in 28 RC Suites at a valuation of \$4.6 million.

Since the diversification into real estate development in 2013, the group has completed three projects, namely 28 RC Suites, 8M Residences and Charlton 18.

- (i) **What are the lessons gleaned from the experience in the past 4-5 years following the group's diversification into property development?**
- (ii) **Has the group developed its niche in the market to allow it to stand out from other developers? Would management (re)state the group's core competencies and value proposition as a developer?**
- (iii) **What is the group's return on investment (ROI) from its property development efforts since 2013?**

The chairman has mentioned that the group will be "*exploring local and overseas property development projects with suitable partners and strategic investors*".

- (iv) **Would the company explain in greater detail how it identifies and selects "*suitable partners and strategic investors*"?**
- (v) **What are the cities that the group has evaluated? What would be the competitive advantage that the group can leverage on should it venture overseas?**

In addition, the group's FY2018 revenue from its core business of building construction was \$32.6 million, the lowest since FY2015. The segment revenue from external customers, total segment revenue, total revenue, segment profit and total consolidated profit in each financial year since 2015 is as follows:

| | FY2015 | FY2016 | FY2017 | FY2018 |
|---|-------------|-------------|------------|------------|
| Building construction segment – external customers (\$) | 55,474,059 | 54,039,445 | 65,233,886 | 32,569,913 |
| Segment revenue (\$) | 77,761,244 | 70,754,257 | 65,233,886 | 32,569,913 |
| Total revenue (\$) | 132,498,092 | 126,228,294 | 97,172,120 | 75,152,065 |
| Segment results (\$) | 3,620,718 | 5,134,114 | 6,546,762 | 3,768,681 |
| Profit for the year (\$) | 2,910,305 | 2,506,576 | 7,892,719 | 4,274,829 |

It was disclosed that the group has an order book of \$56.7 million as at 31 July 2018.

- (vi) **In view of the challenges in the construction industry, how does the group ensure that its building construction segment remains profitable? How does the group maintain and improve its level of competitiveness? What is**

the value proposition of the group's construction segment that allows it to stand out in the crowded market place?

- (vii) Has the board evaluated the long term future of the group's building construction segment? How sustainable is the segment especially given its importance as the main profit contributor to the group?**
- (viii) What is management's strategy to scale up the construction building segment meaningfully while maintaining its profitability? Does management have an estimate of the group's market share?**

2. In Note 14 (page 67 – Provisions), the group has recognised a provision for defective works and warranty of \$3.65 million as at 31 July 2018. The allowance made during the year was \$3.32 million, as shown below:

Movement for provision for defective works and warranty of the Group during the year are as follows:

| | GROUP | |
|--------------------------------|------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| At beginning of year | 408,582 | 487,062 |
| Allowance made during the year | 3,319,200 | - |
| Reversal during the year | (81,191) | (78,480) |
| At end of year | <u>3,646,591</u> | <u>408,582</u> |

(Source: Company annual report)

- (i) What is the reason for the significant amount of allowance for provision for defective works and warranty recognised during the financial year given that the group is a builder with a strong track record in construction?**
- (ii) What improvements have been made to the group's processes and systems to reduce the level of provision for new projects?**

3. On 24 October 2018, the company announced that there are material variances between the unaudited results (first announced by the company on 21 September 2018) and the audited financial statements for FY2018 after the finalisation of audit.

The company has clarified that the variances are reclassifications in nature and there is no impact to the group's profits and financial ratios for FY2018.

Reasons for the reclassifications given included:

- Reclassification of provisions from trade & other payables to provision
- Additional disclosure on the foreseeable losses recognised in the profit and loss statement that was previously included as part of amount due to customer and amount due from customer
- Reclassification of amounts arising from new finance (leases) during the year



The variance was as large as \$2.35 million.

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 (the “Act”) and Financial Reporting Standards in Singapore (“FRSs”).

- (i) How can shareholders get the assurance from management that the financial statements are prepared in accordance with the Act and FRSs?**

- (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?**

A copy of the questions for the Annual Report for the financial year ended 31 July 2017 and 31 July 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Sysma%20Holdings%20Ltd>

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