Issuer: Lian Beng Group Limited
Security: Lian Beng Group Limited

Meeting details:
Date: 29 Sep 2016
Time: 10:00AM
Venue: 29 Harrison Road, Lian Beng Building, Singapore 369648

Company Description
Lian Beng Group Ltd, an investment holding company, engages in the construction of residential, industrial, commercial, and civil engineering projects in Singapore. It operates in six segments: Construction; Engineering and Leasing of Construction Machinery; Property Development; Manufacturing of Concrete and Asphalt; Investment Holding; and Dormitory. The Construction segment constructs residential, institutional, industrial, and commercial properties; and undertakes civil engineering projects in private and public sectors. The Engineering and Leasing of Construction Machinery segment provides construction related services, such as scaffolding and electrical installations; and leases metal formworks, as well as construction machinery and equipment. This segment manages a fleet of equipment for lease and sales, including generators, air compressors, gondolas, and other building materials, such as external scaffolds and metal forms; and provides services comprising erection and dismantling of external scaffolds, and the repair and maintenance of construction equipment and machinery. The Property Development segment develops, sells, and rents residential, commercial, and industrial properties, as well as offers property management services. The Manufacturing of Concrete and Asphalt segment manufactures and supplies ready-mixed concrete and asphalt, as well as sells sand. The Investment Holding segment holds investments in unquoted securities and properties. The dormitory segment is involved in the rental of dormitory units; and provision of dormitory services. The company also engages in trading construction materials; chartering ships; transporting raw materials; and providing formwork services and training for construction workers. Lian Beng Group Ltd has strategic partnerships with LaSalle Investment Management Pte Ltd and Duke Development Pte Ltd for the development of condominiums. The company was founded in 1973 and is headquartered in Singapore.
Source: http://sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=L03

1. Besides the main construction business, the group now has grown/diversified to own interests into other construction-related business. From the Segment information (page 161 of the annual report), the detail of the six operating segments are as follows:

- Construction: As the main contractor, in the business of constructing residential, institutional, industrial and commercial properties. To a lesser extent, it also undertakes civil engineering projects in both private and public sectors.
- Dormitory: Rental of dormitory units and provision of dormitory service.
- Engineering and leasing of construction machinery: Provision of construction related services, such as scaffolding, electrical installations, leasing of metal formworks, as well as leasing of construction machinery and equipment.
- Property development: Engages in development and sale of properties (residential, commercial, mixed-use and industrial), as well as the provision of property management services.
- Investment holding: Investments in quoted and unquoted securities and property for long-term capital appreciation, rental, as well as dividend yield.
- Manufacturing of concrete and asphalt: Manufacture and supply of ready-mixed concrete and asphalt, as well as the sale of sand.

Geographically, other than Singapore, the group has interests in Australia (Melbourne), Malaysia, Vietnam (Ho Chi Minh City) and the United Kingdom (Bradford, Gloucester City, Leeds and Manchester). In the financial year, three new investments in associates were made - Fairmont Land, LGB – NB and Prospere Hotels (page 105).

Given that Real estate essentially is a very local and relationship driven people business, how does the board ensure that the group is not spread too thin and can maintain control /or oversight over the operations? For instance, leasing out commercial properties in Melbourne, acquiring the residential development rights in Ho Chi Minh city and managing the hotel operator of a no-frill mid-tier hotel chain in Bradford require in-depth knowledge of the dynamics of the local markets and different skillsets and relationships. Since the Singapore operation is substantial and still the core business of the group, shareholders would imagine that management's attention is focused on the core Singapore business. How does the board ensure that the group's other investments are being properly managed? Is there sufficient oversight and does management have the bandwidth to do so? Should the board develop a coherent investment strategy that leverages on the core expertise of the group instead of allowing the minority investments in a hotchpotch manner in different segments and in different markets?

2. The group's net profit decreased 20% to $108 million (page 18 – Financial performance comparison) and the profit attributable to shareholders also decreased 5% to $103 million.

However, compensation to "Directors of the company" under the section "Compensation of key management personnel" (page 143) increased from $9.78 million in 2015 to $11.86 million in 2016, an increase of 21%.

In the disclosure on remuneration in the Corporate Governance report (page 38), it was shown that one director was in the band of $5.25 - $5.5 million and two directors were in the band of $3.0 - $3.25 million. The bonus & profit sharing components were between 82% and 86% of the directors' annual remuneration package.

On page 37, it was also disclosed that "the Company has entered into separate service agreements with Mr Ong Pang Aik, Ms Ong Lay Huan and Ms Ong Lay Koon, effective from 1 June 2015".

Could the Remuneration committee explain the apparent discrepancy between the drop in profit and the increase in remuneration of the executive directors? Can the Remuneration committee confirm that the percentage of profit sharing has not gone up in latest service agreements signed with the executive directors in June 2015 (compared to the prior service agreements)?

Can the Remuneration committee also help shareholders understand if such bonus and profit sharing were calculated based on a "before minority interest" basis or on an "after the deduction of minority interest" basis? If it were the former, can the remuneration committee state what would have been the difference if the bonus and profit sharing were calculated based on an "after minority interest" basis?

3. The current board consists of two independent directors appointed in July 2015 and three executive directors who are siblings. Would the Nominating Committee consider re-constituting the board and the board committees? Because there are only two independent directors, one executive director sits on the audit, nominating and remuneration committees.

Guideline 2.2 of the Code of Corporate Governance states that:

2.2 The independent directors should make up at least half of the Board where:
(a) the Chairman of the Board (the "Chairman") and the chief executive officer (or equivalent) (the "CEO") is the same person;
(b) the Chairman and the CEO are immediate family3 members;
(c) the Chairman is part of the management team; or
(d) the Chairman is not an independent director.

Furthermore, Guideline 7.1 and 12.1 state that:

7.1 The Board should establish a Remuneration Committee ("RC") with written terms of reference which clearly set out its authority and duties. The RC should comprise at least three directors, the majority of whom, including the RC Chairman, should be independent. All of the members of the RC should be non-executive directors. This is to minimise the risk of any potential conflict of interest. The Board should disclose in the company's Annual Report the names of the members of the RC and the key terms of reference of the RC, explaining its role and the authority delegated to it by the Board.

12.1 The AC should comprise at least three directors, the majority of whom including the AC Chairman, should be independent. All of the members of the AC should be non-executive directors. The Board should disclose in the company's Annual Report the names of the members of the AC and the key terms of reference of the AC, explaining its role and the authority delegated to it by the Board.

To be fully compliant with the Code, the Nominating committee should consider and implement a board renewal plan to ensure a majority of independent directors on the board, and have the audit and remuneration committees be formed by independent directors. Can the Nominating committee please comment on this?