Issuer: Lee Metal Group Limited

Security: Lee Metal Group Limited

Meeting details:
Date: 17 April 2018
Time: 10.00 a.m.
Venue: No. 7, Tuas Avenue 16, Singapore 638934

Company Description

Lee Metal Group Limited engages in steel merchandising, fabrication, and metal recycling activities in Singapore and Malaysia. The company operates through two segments, Steel Merchandising, and Fabrication and Manufacturing. It manufactures and sells reinforcing mesh and other manufactured mesh; processes and sells fabricated reinforcing bars; and trades in steel and metal materials and/or products. The company's products include steel reinforcement bars; cut and bend reinforcement bars; prefabricated cages; standard fabrics; engineered mesh products; and mesh lapping and slab mesh detailing products, as well as beam stirrup, beam capping, column link, and column C-link cages. It is also involved in the property development, construction, and management activities. The company was founded in 1982 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=593)

1. As noted in the Letter to Shareholders (page 4), the group achieved a 6.4% increase in revenue to hit $339.0 million in FY2017, driven purely by the performance in the fabrication and manufacturing segment as the steel merchandising was wound down completely in FY2016.

As a result of the decrease in China's export volumes due to stricter environmental pollution controls and greater domestic demand, international steel prices recovered in 2017 as global demand-supply balanced out.

In Note 19 (page 70 – Invetories), it can be seen that inventories has increased to $161.2 million as at 31 December 2017 from $79.2 million a year ago.

(i) Can management help shareholders understand if the increase was due to confirmed orders received/projects or were inventories bought in anticipation of higher prices?

(ii) Please also provide a breakdown to show the impact of (a) higher prices and (b) higher volume of steel held as inventories.

(iii) What is the group's estimated market share in the supply of steel for public infrastructure projects?

(iv) Given the spate of enbloc sales in 2017 and in 2018, does management expect private sector construction demand to pick up considerably? What is the typical lag time between the award of a land sale/enbloc sale to confirmed sales orders for the group?

(v) What are management's strategies to seize the opportunities that might arise from the private sector construction demand as driven by the spate of enbloc sites?

2. After the development of Austville Residences which was 35% owned by the group, the group then turned its attention to developing landed private properties. Of the group's total assets of $386.2 million as at 31 December 2017, more than $51 million is recognised as segment assets for "Property development and investment".

In addition, in Note 18 (page 69 – Assets held for sale under development), the total carrying cost as at 31 December 2017 was $42.0 million, up from $14.4 million a year ago. The group now has a two-storey detached house along Maryland Drive and a detached house along Nassim Road.

(i) Local media has reported the sale of the group's completed property at Maryland Drive for $21 million in September 2017. The group has also received $2.0 million from its customers recognised as "advance payment received forproperty development business". However, the Maryland Drive property is still being recognised as "asset held for sale". Can management please update shareholders on the sales status of the project? When is the likely completion date if the property has been sold?

In Q4 2017, the group also purchased the private property along Nassim Road for approximately $23 million.

(ii) Can the board help shareholders understand the level of commercial due diligence done prior to making such purchases/investments of luxury private properties?

(iii) As a group's core business is in steel fabrication, what are the skills, expertise and network that the group can leverage on for its high-end property development segment?

3. As proposed in the Notice of Annual General Meeting (page 126), shareholders are asked to approve the directors' fees of $300,000 for the financial year ending 31 December 2018.

The directors' fees have been:

- $300,000 in FY2017
- $270,000 in FY2016
- $270,000 in FY2015
- $300,000 in FY2014
- $360,000 in FY2013

(i) Would the remuneration committee (RC) help shareholders understand the reasons for the fluctuations in the level of directors fees?

In the Statement of Corporate Governance, under Guideline 8.3 (page 109 – Remuneration of non-executive directors), the company has disclosed the following:

> "The Board and RC have reviewed the fee structure for Independent Directors as being reflective of their efforts and time spent, and their responsibilities and contributions to the Board and recommends the directors' fee for FY2017 in accordance with the fee structure for shareholders' approval at the Company's AGM."

(ii) Can the RC confirm that there is an fee structure that was used to determine the fees for the independent directors?

(iii) If so, would the RC consider disclosing the fee structure which will improve the level of transparency of remuneration, especially for the non-executive directors?

(iv)

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

https://sias.org.sg/qa-on-annual-reports/?company=Lee%20Metal%20Group%20Ltd

The company's response could be found here:

https://sias.org.sg/media/qareport/company_responce/1493774614_Lee_Metal_Group_Responses.pdf