



**Securities Investors Association (Singapore)**

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**Issuer:** Libra Group Limited

**Security:** Libra Group Limited

**Meeting details:**

Date: 30 May 2019

Time: 9.00 a.m.

Venue: Seletar Country Club, 101 Seletar Club Road, Singapore 798273

**Company Description**

Libra Group Limited is a Singapore-based investment holding company. The Company operates through four segments: Investment holding, Mechanical and electrical, Manufacturing, and Building and constructions solutions. The Investment holding segment includes investment in property and investment in subsidiaries deriving income, such as dividend, interest and rental, as well as provision of management advisory services to its subsidiaries. The Mechanical and electrical segment includes the contracting and installation of air-conditioning and mechanical ventilation (ACMV), fire alarms and fire protection systems, electrical systems, as well as sanitary and plumbing systems for residential, commercial and industrial building. The Manufacturing segment includes the manufacturing and sale of ACMV ducts and trading of ACMV related products. The Building and constructions solutions segment includes those of general contractors, building construction and upgrading works.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5TR](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5TR))

**Q1.** On 15 April 2019, the company announced that it had entered into a Memorandum of Understanding to dispose of the group's 51% interest in the YC Capital Consolidated Sdn ("YCC"), a tourism and retail related business in Malaysia. YCC was recently acquired by the group on 28 March 2018 from the executive chairman in an interested person transaction.

In the company's announcement dated 15 April 2019, the company has stated that the main reason for the proposed disposal is the departure of YC Group's senior management team in October 2018.

- (i) Has the board evaluated the key person risks of the new business during its evaluation process (for the acquisition) and under the group's ownership since 28 March 2018?**
- (ii) What were the business continuity plans that were put in place?**
- (iii) Given that the original acquisition was an interested person transaction, what was the level of due diligence conducted by management? How was the due diligence carried out?**
- (iv) What was the involvement of the independent directors in the original acquisition, especially in the valuation, due diligence and approval process?**
- (v) Notwithstanding that the consideration for the proposed disposal is the same amount that the group paid the original vendor (also an interested person) (\$12.0 million), what were the other costs associated with the acquisition? How much more will the group incur to complete the proposed disposal?**
- (vi) Given that Ms Gn Jong Yuh Gwendolyn, as an independent director of the company, is a partner in Shook Lin & Bok LLP, the company's legal advisers to both the acquisition and the disposal, would Ms Gn be frequently put in a position where she has conflicts of interests?**

The company has stated that it will continue to "*selectively explore diversification into other sectors, as well as geographical expansion, to drive further growth*".

- (v) Has the board devised a structured deal sourcing and evaluation approach/framework to guide the group's diversification efforts? Other than interested person transactions, does the board leverage professional bankers and consultants to deal-source opportunities that are appropriate for the group?**
- (vi) What are the lessons gleaned from the group's acquisition of YC Group in April 2018? How has that helped the board to further refine its acquisition strategy?**

**Q2.** On 15 May 2019, the company announced that the independent auditors of the company have issued a disclaimer of opinion in the independent auditors' report in respect of the company's consolidated financial statements for the financial year ended 31 December 2018 ("FY2018").

The auditors have stated the following:

*We do not express an opinion on the accompanying financial statements. Because of the significance of the matter described in the 'Basis for Disclaimer of Opinion' section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.*

The basis for disclaimer of opinion are:

- (a) Accounting for the acquisition and consolidation of YC Capital Consolidated Sdn Bhd and its subsidiaries; and
- (b) Accounting for financing transactions

Specifically, with regard to the group's accounting for financing transactions, the auditors have stated that, as at 31 December 2018, the other receivables of the group included \$2.6 million arising from financing transactions and the auditors have been unable to assess the recoverability of the receivable due to lack of financial information of the debtor. The auditors were also unable to assess if the financing transactions breached any contractual obligations and if there are any further adjustments or consequential effect.

- (i) Can the audit committee members help shareholders understand the level of cooperation given by management to the external auditors?**
- (ii) What were the individual and collective efforts by the audit committee members to facilitate the audit by the external auditors, given that the auditors have stated that they have "not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements" (emphasis added)?**

In the Directors' statement, the directors have stated that, in their opinion, "*the consolidated financial statements of the Group, and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date*".

- (iii) Would the directors, especially the independent directors who are also audit committee members, help shareholders understand the basis of their opinion (as shown above) given the significance of the matters described by the independent auditors in the Disclaimer of Opinion?**

- (iv) Going forward, what are the efforts by the board, especially the audit committee, to help the external auditors resolve the issues as described in the Disclaimer of Opinion?**
- (v) What improvements will the board/audit committee be making to the group's audit plans, internal controls and reporting functions?**

In addition, the company has disclosed that the existing auditors *“have expressed that they would not be seeking for re-appointment at this Annual General Meeting as the Directors of the Company are of the view that it would be timely to effect a change in Auditors for the costs beneficial to the Company.”* (page 168)

- (vi) Would the independent directors/auditors clarify if the auditors have been told that they would not be re-appointed by the board?**
- (vii) Would the independent directors/audit committee justify the timing of the board's decision to effect a change in the auditors of the company?**

**Q3.** In addition, on 15 May 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 1 March 2019) and the audited financial statements for FY2018 after the finalisation of audit.

The material differences between the Unaudited Financial Statements and the audited consolidated financial statements for FY2018 (the “Audited Financial Statements”) arose mainly due to reclassifications and adjustments which proposed by the external auditors.

Reasons given included:

- Reclassification of financing transaction from revenue and cost of sales to other income;
- Reclassification from administrative expenses to impairment losses on financial assets;
- Reclassification from administrative expenses to impairment losses on contract assets;
- Additional impairment losses on financial assets; and
- Additional provision of income and deferred tax

As a result, loss for the year increased from \$(1.85) million to \$(4.36) million. Revenue decreased by \$(4.86) million and equity slipped by \$(1.95) million.

- (i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International)?**
- (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 help shareholders understand their recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**