Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Lian Beng Group Ltd

Stock code: L03

Meeting details:
Date: 28 September 2021
Time: 11.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. The group had to endure challenging operating conditions in the construction segment since the onset of the COVID-19 pandemic, resulting in the slow pace of work resumption in FY2021, manpower shortage arising from tighter border measures, disruptions in manpower deployment due to the workers' movement control, as well as additional safe management measures implemented at the worksites.

For FY2021, segment revenue declined by 7.2% to $427.5 million, from $460.5 million in FY2020. The segment remained profitable with a segment profit of $1.62 million in FY2021 (FY2020: $2.45 million).

(i) **Can management help shareholders better understand (and quantify) the headwind in the construction sector, especially the manpower situation? How is the group mitigating the manpower shortage and the cost pressure?**

(ii) **With an order book of $1.4 billion as at 31 May 2021, how is the group able to pass on the unexpected cost increases to maintain its profit margin?** It would appear that the bulk of the order book was secured prior to the pandemic and hence the contracts would not have factored in the increases in manpower and material costs.

While the group is focused on efficiently managing the construction progress of the 14 ongoing projects, it has stated that it will selectively tender for new contracts. Recently, it was reported in the media that a large construction group has gone bust and many subcontractors are also faced with liquidity and operational issues.

(iii) **Can management help shareholders understand how the group is managing the current situation better than other construction companies?**

(iv) **What are the safeguards put in place by management and the board to ensure that the group's partners (especially subcontractors and suppliers) are financially robust and would be able to deliver on their contractual obligations to allow for the smooth execution of the group's construction projects?**

(v) **Does the group see any silver lining in the segment, perhaps in the tendering for new contracts going forward?**

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Q2. As disclosed in Note 38 (page 176 – Segment information), the group has more than $1.05 billion of segment assets in the investment holding segment out of the group's total assets of $1.95 billion. This includes the group's newly acquired BreadTalk IHQ, a leasehold industrial property at 30 Tai Seng Street, purchased for an aggregate consideration of $118.0 million (100%).

In the operations review (page 23), it was disclosed that revenue from the investment holding segment decreased by 2.5% to $25.4 million compared to $26.1 million in FY2020. This was mainly due to lower rental income as a result of additional rental relief extended to eligible small and medium sized enterprise (SME) tenants in FY2021.

Note 25 (page 144 – Revenue) shows the group's revenue and is reproduced below:

25. Revenue

	Group		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Construction contract revenue	376,716	403,087	–	–
Revenue from sale of goods	48,216	56,078	–	–
Revenue from rendering of services	5,622	6,027	–	–
Rental and service income from dormitories	19,225	23,284	–	–
Sale of development properties	41,709	45,846	–	–
Rental income				
- Third parties	16,010	15,540	–	–
- Joint ventures	4	6	–	–
- Affiliated companies	7	7	–	–
Interest income from corporate bonds	5,483	5,265	–	–
Dividend income from investment securities	822	583	–	–
Distribution income from investment securities	676	320	–	–
Dividend income from unquoted subsidiaries and associate	–	–	16,636	9,845
	514,490	556,043	16,636	9,845

(Source: company annual report; page 144)

The company further showed the revenue breakdown by geography, by revenue stream and by timing of transfer of goods or services on page 145 but the total revenue recognised was only $491.5 million in FY2021 and $534.3 million in FY2020, as compared to the figures of $514.5 million and $556.0 million respectively shown in the table above (page 144).

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25. Revenue (cont'd)

Segments	Construction		Dormitory		Investment holding		Property development		Total revenue	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Primary geographical market										
Singapore	425,002	459,372	19,225	23,284	5,552	5,820	41,709	45,846	491,488	534,322
Major revenue streams										
Construction contracts revenue	376,716	403,087	–	–	–	–	–	–	376,716	403,087
Revenue from sale of goods	48,216	56,078	–	–	–	–	–	–	48,216	56,078
Revenue from rendering of services	70	207	–	–	5,552	5,820	–	–	5,622	6,027
Rental and service income from dormitories	–	–	19,225	23,284	–	–	–	–	19,225	23,284
Sale of development properties	–	–	–	–	–	–	41,709	45,846	41,709	45,846
	425,002	459,372	19,225	23,284	5,552	5,820	41,709	45,846	491,488	534,322
Timing of transfer of goods or services										
Over time	376,786	403,294	18,874	22,808	5,552	5,820	41,709	45,846	442,921	477,768
At a point in time	48,216	56,078	351	476	–	–	–	–	48,567	56,554

(Source: company annual report; page 145)

(i) Would the management/audit committee help shareholders reconcile the different figures for revenue on page 144 and on page 145?

(ii) In addition, how was the revenue of $25.4 million from the investment holding segment calculated (as mentioned in the operations review on page 23)?

(iii) **Given that investment holding is a key pillar in the group's business model and accounts for approximately $1.05 billion in segment assets, would the board be reviewing the disclosure in the annual report to provide greater clarity on its investment properties to shareholders?** This would help shareholders better understand the risks and performance of the group's investments. In addition, there is no mention of Wilkie Edge and Sembawang Shopping Centre in the annual report. **While these are held by joint ventures, should all investment properties also be clearly listed in the annual report so that shareholders, especially new ones, are made aware of the group's entire portfolio?**

(iv) **In addition, please provide shareholders with relevant operational information of its key assets, such as occupancy, rental reversion, weighted average lease expiry, major tenants etc.** This would help shareholders understand the performance of the group's investment properties and provide greater clarity on the group's cash flows.

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Q3. From page 23 (Operations Review: Investment holding), other than the group's portfolio of commercial, industrial and residential properties which the group holds for stable recurring income, management disclosed that the group holds an investment securities portfolio valued at $167.1 million.

Details of the investment securities could be seen from Note 9 (page 120 & 121 – Investment securities). The carrying values are:

- $6.29 million of (current) quoted investments at fair value through profit or loss (FVPL)
- $12.09 million of (current) quoted investments at fair value through other comprehensive Income (FVOCI)
- $155.01 million of (non-current) quoted and unquoted investments at FVOCI.

It is noted that investment securities amounting to $130.5 million have been pledged as security for bank loans.

(i) **Can the board help shareholders understand if the large and increasing portfolio of investment securities would alter the group's risk profile?**

(ii) **Did the board and shareholders approve the group's "diversification" into securities investment?**

(iii) **Has the board set a limit to the group's exposure to securities investment? Is there a robust risk management system (including individual security, sector, geographical exposure limits) put in place to manage the risks?**

(iv) **What is the investment mandate and the targeted return of the group's portfolio of securities investment?**

(v) **Who oversees the group's investments? Has the board set up an investment committee to provide proper oversight of the group's investments into equities and debt? What are the returns achieved over the past 3-5 years?**

(vi) **How is the investment into securities aligned with the group's long-term objectives?**

(vii) **Would management be distracted from the core businesses, at a time when the group is facing huge challenges in the operating environment?**

(viii) **With a gearing ratio as high as 1.86 (page 172 – Note 37: Capital management), does the board consider it prudent to gradually scale back its exposure in securities to conserve capital to support the core businesses during this challenging period?**

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^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

Join our mailing list here to receive latest news and upcoming events.

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)