

# MANAGEMENT DISCUSSION AND ANALYSIS

The information in this management discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the notes related thereto. The discussion of results, causes and trends should not be construed to imply any conclusions that such results, causes or trends will necessarily continue in the future.

THE GROUP'S OPERATING BUSINESS SEGMENTS ARE BROADLY CATEGORISED INTO **PROPERTY DEVELOPMENT, CONSTRUCTION, MANAGEMENT AND INVESTMENT, MOTOR RACING CIRCUIT, TRADING AND OTHERS.**

## SEGMENTAL OPERATIONAL REVIEW - PROPERTY

### PROFILE



LBS builds homes that meet the needs of Malaysians. For over 20 years, LBS has carefully nurtured a reputation for delivering properties with unsurpassed quality that inspire and enrich. By insisting on continually improving not only construction technologies but the very latest in architectural trends, LBS lives up to its belief that Malaysians deserve homes of the finest workmanship.

### VISION



We strive to be an internationally recognised developer, building and inspiring delightful spaces that enhance community living.

### MISSION



We consistently deliver exceptional performance through progressive creations, realising value to all shareholders and enriching communities at large.

### FOCUS



We target areas with attractive market fundamentals and upcoming economic prospects. We look for strategic partners for win-win business relationships. We use our extensive knowledge and network to identify investment opportunities. We focus our launches in four major states: Selangor, Pahang, Johor and Perak.

### BUSINESS MODEL



Our business model has a single purpose - to create living habitat that are delighted by customers which in turn delivers value for our shareholders and stakeholders.



# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

## STRATEGIES IN CREATING VALUE

	Driving Value	Delivery by LBS
<p><b>LAND BANKING</b></p> 	<p>We have the skills, experience and financial flexibility to execute the most value-enhancing asset selection, either through outright acquisition or joint venture with the landowner.</p>	<p>Continuous replenish strategy in land banking drives the returns over the business cycle.</p>
<p><b>DESIGNING</b></p> 	<p>Our building design trending towards simple and practical yet offers highest comfortableness reflecting in the modern lifestyle.</p>	<p>Modern homes constructed to a high standard using new technologies and latest architectural trends.</p>
<p><b>BUILDING</b></p> 	<p>Efficient and cost effective build to a high standard while creating strong relationships with materials suppliers and contractors.</p>	<p>Modern homes constructed to a high standard using new technologies and latest architectural trends.</p>
<p><b>SELLING</b></p> 	<p>Providing positive sales and customer care experience.</p>	<p>Satisfactory customers bring clientele diversification, brand attestation and repeated sales.</p>
<p><b>DELIVERING</b></p> 	<p>Timely delivering quality home that justify a reasonable price.</p>	<p>Quality homes delivered at affordable and reasonable price.</p>

# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Strategies	Effect to our strategies	2016 activities
<p><b>Land Banking</b></p> <p>Land or project acquisition opportunities are identified by our Management using their knowledge and contacts. A feasibility assessment is prepared by the Project Department, which is reviewed at Top Management level before submit to the Board, where the final decision is taken on.</p> <p>Land acquisitions or joint venture project are considered against a series of criteria, such as gross margin, forecast sales rates, customer demand and planning prognosis.</p>	<p>Strategic land helps to augment our land bank and complements our strategy of growth.</p> <p>Joint venture in projects is expected to lower our upfront cost.</p>	<p>Land bank increased by 865 acres during the year through joint venture and outright purchase.</p> <p>Total land bank of 3,532 acres as at 31.12.16 with estimated GDV of RM27.4 billion would enable the Group to have sufficient capacity for future growth.</p>
<p><b>Designing</b></p> <p>Designing appropriate range of products at reasonable price to cater to the different income group.</p> <p>Simple and practical are the main concerns in designing process in terms of space and materials used.</p>	<p>Good product quality enhances customer satisfaction and ultimately our LBS Brand, which enhance our ability to sell the properties we develop.</p> <p>Having suitable materials at competitive prices enables us to meet our growth aspirations, helps support our margin and brings better control over its cost.</p>	<p>We have the trials of our new layouts that demonstrated savings in design and construction costs.</p> <p>Major building materials in the construction process, such as bricks, steels, cement and lintels are subject to our bulk purchasing arrangements, ensuring consistently high quality at competitive prices.</p>



# MANAGEMENT DISCUSSION AND ANALYSIS

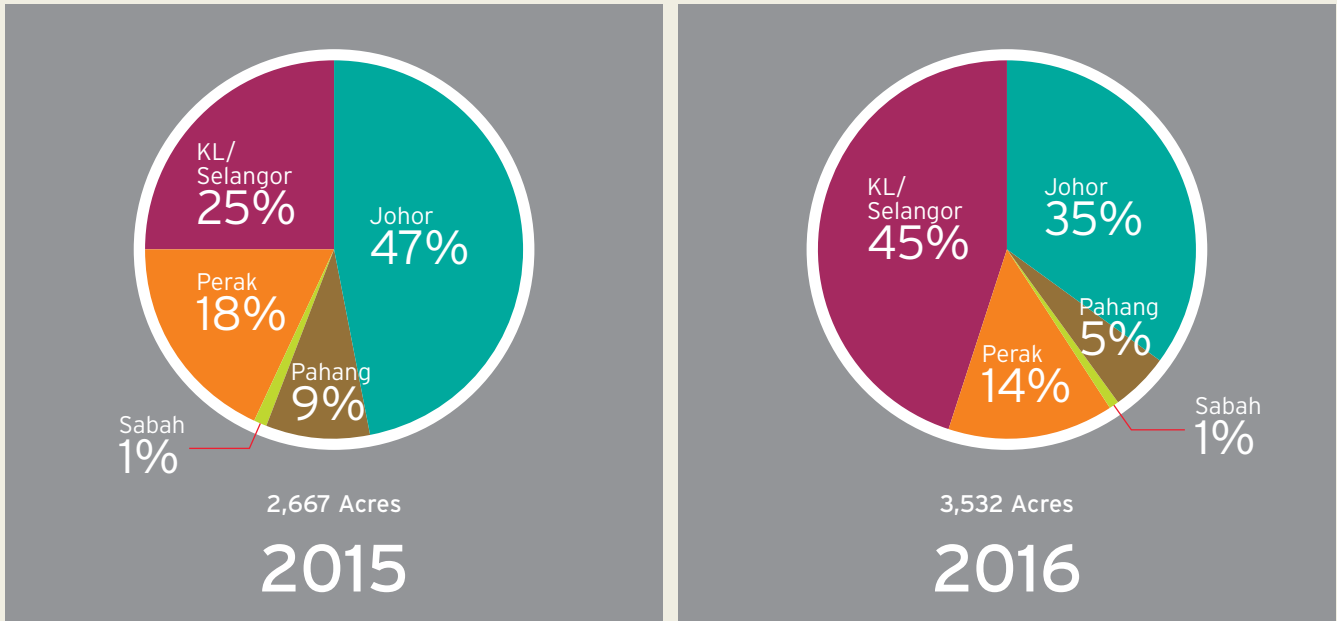
(CONT'D)

Strategies	Effect to our strategies	2016 activities
<p><b>Building</b></p> <p>We strive to maintain long-term working relationships with reputable sub-contractors to reduce health and safety risks and ensure the quality of our product.</p> <p>We seek to make sure that we have suitable building materials available at competitive prices to enable us to construct properties to the required standards expected of us by our customers, within budget and on time.</p>	<p>It is important to have high standards of health and safety on our sites to create the appropriate working environment to deliver a good quality product.</p>	<p>Our properties were regularly inspected during the construction process both by in-house management and the consultants to ensure that building standards were achieved.</p>
<p><b>Selling</b></p> <p>We aspire to sell properties that are desirable and affordable for our customers.</p> <p>The satisfaction of our purchasers is important to us as this can ultimately determine the success or otherwise of our business.</p> <p>We aim to deliver a positive experience to our customers, from sales until and delivery of vacant possession.</p>	<p>Good customer care and services helps to perpetuate a positive reputation for the Group and assists in generating further sales through personal recommendation.</p>	<p>We continue to innovate our approaches and enhance our processes to further improve on sales and customer care performance through training and educating staff, particularly those in the front lines facing the customers.</p>
<p><b>Delivering</b></p> <p>We strive to deliver the property ahead of schedule.</p>	<p>Timely delivery of completed units to customers smoothen the cash flow position.</p>	<p>We continue to deliver completed units to the purchasers on time.</p>

# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

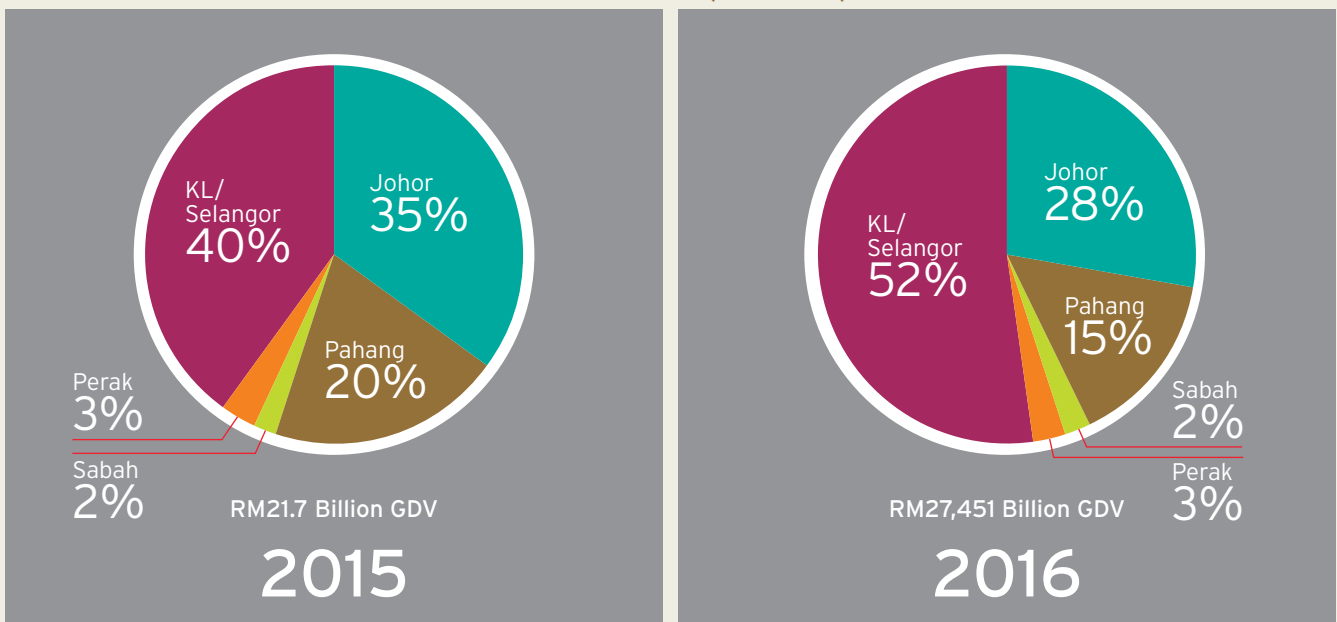
## LAND BANK BY GEOGRAPHIC (ACRES)

Total Future Land Bank (Acreage)



## LAND BANK BY GEOGRAPHIC (GDV)

Total Future GDV (RM Billion)



# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

## PROJECTS BY LOCATION

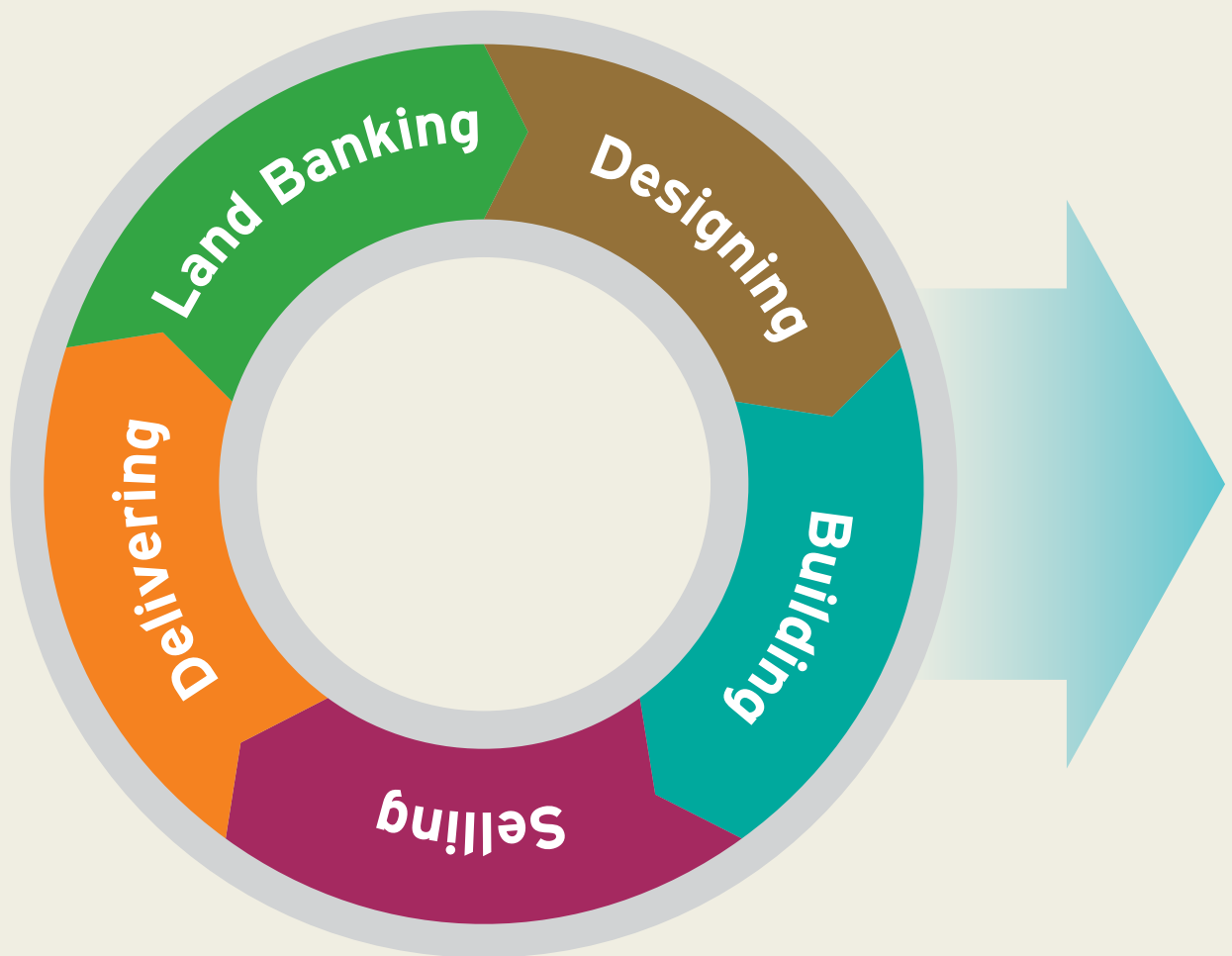


# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## Our Business Model

Our business model has a single purpose - to create living habitat that are delighted by customers that delivers value for our shareholders and stakeholders.

### STRATEGIES IN CREATING VALUE



# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

## Financial Objectives



### Growth

#### Growth in profit

The increase in projects portfolio and margin.

#### Growth in Asset Value

The increase in the value of our portfolio generated by our actions and market influences.



### Outcome

#### Dividend

Dual Dividend Policy fixed by the Company.

#### Capital gain

Appreciation of assets value.



### Measure

#### Total Business Return Capital

Enlarged capital base of the business.

#### Net Asset Value:

Overall acceleration in asset value.



### Influences

#### Market Sentiment

Responds to:

- 1. External factors**
  - Economic condition
  - Government policies
  - Interest rate
- 2. Internal factors**
  - Type of products
  - Pricing
  - Location
  - Customer services
  - Company reputation



### Target

#### Total shareholder's return

**Dividend payment**  
The financial value of dividend paid to shareholders.

**Share Price growth**  
The increase in market price of our quoted shares.

## Non-Financial Objectives



### Corporate Responsibilities

**Customers:** assist the Malaysian to own their dream homes at affordable price.

**Environment:** Improve the business environment while minimising negative impact.

**Communities:** Contributing back to society.

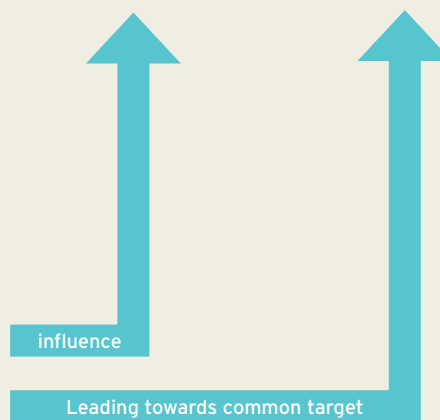
**Employees:** Develop human resource pool comprises skillful people with business ethics.



### Outcome

**Brand:**  
Strengthening LBS Brand and reputation.

**Sustainable:**  
Long term sustainability and prospect.





# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## MALAYSIAN ECONOMY OUTLOOK & OVERVIEW

The Malaysian economy registered a growth of 4.2% in 2016. Domestic demand continued to anchor growth, supported mainly by private sector spending. Private consumption growth, in particular, was sustained at 6.1%, supported by continued employment and wage growth following the increase in minimum wage and civil servant salaries. Government measures to boost disposable income such as the temporary reduction in employees' contribution to the Employees Provident Fund, higher Bantuan Rakyat 1Malaysia payouts and tax relief to lower-income tax payers also supported household spending.

Positive prospects for the Malaysian economy in 2017 are premised upon expectations of an improving global economy and the continued growth in domestic demand. The Malaysian economy is projected to register growth of 4.3%-4.8% in 2017.

The improvement in global growth is expected to generate positive spillovers to the domestic economy through the

trade, investment and income channels. Malaysia's export performance will benefit from higher growth among key trading partners and the projected recovery in commodity prices.

On the domestic front, investment activity is expected to be underpinned by capital expenditure in the export-oriented industries, particularly in the manufacturing sector. This, together with the continued roll-out of large-scale infrastructure projects will support investment activity going forward.

*(Source: Bank Negara Malaysia Annual Report 2016)*

## MARKET & INDUSTRY OVERVIEW

Malaysia House Price Index ("MHPI") continues to moderate reflecting implementation of various measures to contain spiraling prices. The MHPI stood at 243.3 points (at base year 2000) in the fourth quarter ("Q4") of 2016, with a lower annual growth rate of 5.5% (Q4 of 2015: 230.5 points; 7.2%).





## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)



The residential subsector grew 10.4% supported by steady growth in incoming supply at 13.1% to 816,174 units (January - June 2015: 13.5%; 10.3%; 721,730 units). Klang Valley, accounting for 26.2%, continued to contribute the most of the incoming supply mainly due to increasing affordable housing schemes (January - June 2015: 25.6%).

During the first half of 2016, a total of 102,096 residential properties valued at RM32.7 billion were transacted, accounting for 62.4% of total property transactions (January - June 2015: 119,446 transactions; RM36.5 billion; 64.1%). The softening of the transaction was partly due to the buyers' cautious sentiment and measures to contain the accelerating house prices.

Residential market would remain the focus of the industry, particularly the affordable segment. The ongoing incentives to assist the first home buyers namely the First House Deposit Financing Scheme (MyDeposit) launched in April 2016 shows the continuous commitment of the Government in ensuring that each household is

given a fair opportunity to own a home. The response towards MyDeposit scheme was overwhelming with more than 13,000 applications till 30 April 2016. The Ministry of Urban Wellbeing, Housing and Local Government has targeted between 6,000 to 7,000 eligible applications for the RM200 million fund.

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**LBS has surpassed its target set for year 2016 and marked a record high of RM1.238 billion sales of properties, an increase of 20.3% as compared to year 2015.**

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The property market would be able to endure this challenging period. Given the resiliency of the economy and the optimistic 2016 economic growth at 4.4%, though property market may see moderation in market activity, the slowdown would be manageable as the market fundamentals remain sound and stable.

*(Source: Property Market Report First Half of 2016, Ministry of Finance)*

### OPERATION REVIEW

2016 was another fruitful year for LBS despite the more challenging macro and micro environment. LBS has surpassed its target set for year 2016 and marked a record high of RM1.238 billion sales of properties, an increase of 20.3% as compared to year 2015. Sales from projects located in Klang Valley continued to outperform those from Pahang, Johor and Perak.

The success of LBS' township development in the Klang Valley can be attested by consecutive record sales achieved in the past 2 years. Properties from the Klang Valley contributed to approximately 83.3% of our total sales of RM1.03 billion for the year 2015. *Bandar Saujana Putra, D'Island Residence* and *Desiran Bayu* all located in the USJ/ Puchong vicinity were our chief contributors collectively contributing 87% of total sales for 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)



Properties priced below RM500,000 made up 56.6% of our total sales for the year 2016, representing an increase of approximately 77.7% as compared to 2015. Our focus to provide affordable range of properties at the strategic locations proved to be successful for the growth of the group.

During the year 2016, a total of 4 new projects were launched with total Gross Development Value ("GDV") of RM1.18 billion. As at the end of 2016, the Group still has a total of 14 on-going projects with total GDV of RM2.85 billion after delivered vacant possession of RM463.2 million to the purchasers. Unbilled sales as at end of 2016 recorded at RM1.406 billion representing an increase of 40.6% as compared to end of 2015.

To read more information about our projects go to Portfolio 2016 (page 76 to 89)

### PROSPECTS

Going forward, we will continue to pursue our goals and objectives set to rationalise business while devoting resources to our core business in property development

which we have competitive advantage and where we expect to see continue growth. Like any business, success for us is all about understanding what our customers want and making sure we provide it - at the right time, in the right way, at the right price.

Our main focus stays on our property development activities in Malaysia with an emphasis on properties priced at an affordable range with the middle income group being our main target market. As highlighted above, shortage of affordable housing could very well be more than 1 million units by 2020. In anticipation of the increase in the number of households in Malaysia, our Group is preparing to launch the following projects:-

- i. Initial phase of BSP 6 which comprises service apartments and Rumah SelangorKu located in *Bandar Saujana Putra* with a combined GDV of approximately RM495.00 million;
- ii. Service apartments on a 5.079-acre land located in Puchong, Selangor with a total GDV of approximately RM372.00 million;
- iii. *Mercu Jalil, Bukit Jalil* which comprises service apartments (Tower A) under Perumahan Penjawat Awam 1Malaysia located in Bukit Jalil, Kuala Lumpur with a total GDV of approximately RM170.00 million;
- iv. *LBS Alam Perdana* townhouses and linked houses located in Ijok, Selangor with a total GDV of approximately RM614.6 million; and
- v. *LBS CyberSouth* (Phase 1&2) linked houses located at the south of Cyberjaya, Selangor with a total GDV of approximately RM409.00 million.

We also have other project launches in Pahang, Perak and Johor for 2017.

Presently, we have 16 ongoing projects with a total GDV of RM2.90 billion as well as unbilled sales of RM1.43 billion as at 31 March 2017. Our undeveloped land bank of 3,962 acres with a total GDV of approximately RM29.8 billion as at 31 March 2017 paves the way for our expansion and future growth strategy.



# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

## SEGMENTAL REVIEW - CONSTRUCTION

### PROFILE



The Construction Division was formed in year 2007 to manage and execute the construction activities of our development projects. As the construction arm of the Group, MITCE Engineering Sdn. Bhd. ("MITCE") played an integral role in setting the benchmark for quality project management and execution. The formation of MITCE is therefore critical for the Group as it will ensure our ability to deliver our promise to produce quality with optimal cost efficiency, and most importantly, our commitment in timely hand over of vacant possession.

MITCE offers a full range of pre-construction and construction services which covers a broad range of professional services, from consulting and feasibility studies, to complete design, engineering and construction expertise to full project implementation. Its planners, designers, engineers and builders work in concert throughout an entire project towards achieving the common goal of providing a quality services at a competitive price.

Over the past decade, the Group has witnessed significant growth of MITCE, a trend that is expected to continue as a result of the expansion of the Group. MITCE has accumulated its track record in building high rise and landed residential properties as well as commercial properties.

### VISION



To be an internationally recognised design and build corporation that redefines space to enrich life.

### CULTURE



"Customer First" culture is always our core value to uphold.

### FOCUS



We strive to become the preferred contractor for government residential projects, targeted at affordable segment.

### COMMITMENT



- Ensure the continued success of our customers by meeting and complying with their requirements.
- Ensure our continued success by continuous strive for improvements through a continuous review and enhancement of system effectiveness.
- Ensure our services are cost effective, reliable, high quality and is delivered on time.

### MARKET & INDUSTRY OVERVIEW



The construction sector grew by 5.1% in the fourth quarter (3Q 2016: 7.9%), underpinned mainly by activity in the civil engineering sub-sector following progress in various projects in the petrochemical, transportation and utilities segments. Although still affected by oversupply issues in the commercial segment, growth in the non-residential sub-sector improved marginally, benefitting from the low base from the previous year. Activity in the residential sub-sector moderated, reflecting the subdued property market, while growth in the special trade sub-sector was supported by both early- and end-work activity.



# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## GDP by construction sector

	2016				
	1Q	2Q	3Q	4Q	Year
	Change (%)				
Construction	7.9	8.8	7.9	5.1	7.4

## Indicators for the construction sector

	2016				
	1Q	2Q	3Q	4Q	Year
	Change (%)				
Value of construction work done	11.1	11.7	10.7	8.1	10.3
Residential	8.4	12.5	16.4	9.8	11.7
Non-residential	3.8	2.1	(1.4)	2.5	1.7
Civil engineering	21.3	21.6	19.3	12.5	18.4
Special trade* <sup>1</sup>	17.3	13.5	4.2	3.7	9.6

\*1 Works such as site preparation, electrical installation and painting

(Source: Economic and Financial Developments in the Malaysian Economy in the Third and Fourth Quarter of 2016, Bank Negara Malaysia)

the construction sector  
recorded a strong growth of  
**8.4%**  
during the first half of 2016

Value-added of the construction sector recorded a strong growth of 8.4% during the first half of 2016 (January - June 2015: 7.6%). The acceleration of civil engineering works and sustained expansion in residential activities outweighed the tapering growth in the non-residential subsector. Total value of construction works completed during the first half of 2016 expanded 11.4% to RM62 billion with 11,881 projects (January - June 2015: 11.6%; RM56 billion; 12,158 projects).

The civil engineering subsector contributed 33.2% to the total value of construction works, followed by non-residential (32.1%), residential (29.8%) and specialised construction activities (4.9%) subsectors. The private sector continued to dominate construction activity with a share of 66.3% in the first half of 2016. For the year, the construction sector is expected to expand 8.7% (2015: 8.2%).

The construction sector is projected to grow 8.3% (2016: 8.7%) mainly supported by the commencement of large infrastructure projects such as MRT Sungai Buloh - Serdang - Putrajaya Line, Pan Borneo Highway, Sungai Besi - Ulu Klang Elevated Expressway and Damansara - Shah Alam Elevated Expressway. The upgrading road works from Klang Container Terminal - North Port and the construction of infrastructure in Malaysia Vision Valley are expected to further support the sector.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

The residential subsector is projected to expand driven by affordable housing programmes, particularly 1Malaysia Civil Servants Housing. Meanwhile, the non-residential subsector is expected to benefit from the mixed commercial development mainly in Klang Valley, Johor and Pahang.

*(Source: Economic Report 2016/ 2017, Ministry of Finance Malaysia)*

### OPERATION REVIEW

During the year 2016, the Group has completed its corporate exercise to reorganise its construction business by consolidating the resources of MITCE with another member of the Group, ML Global Berhad (“MGB”) and its subsidiaries (“MGB Group”) we invested since 2014. MGB is a public listed company listed on the Main Market of Bursa Malaysia and was first debuted to the market as a roof tile product manufacturer. Later in 2015/2016, it had successfully diversified its business into project management and construction.

Subsequent to the completion of reorganisation exercise, MGB has issued 267.7 million ordinary share and 180 million Irredeemable Convertible Preference Shares (ICPS), both at issue price of RM0.67 each. The equity base of MGB consequently enlarged from RM30.3 million in financial year ended 2015 to RM335.8 million. The merging of MITCE and MGB Group had provided a platform for our Construction Division to tender for larger scale external construction works which in turn is anticipated to improve its order book and earnings. The enlarged Division has also widened the workforce assemble and enhance access to larger scale of business opportunities.

In the year 2016, the Construction Division has completed 3 projects with total contract sum of RM125.2 million. The Division’s order book reached a high of RM1.6 billion in the year 2016 with new projects worth RM877.2 million secured during the year. These projects included a combination of in-house projects and external building works. As at the end of 2016, the Division has outstanding order books of approximately RM1.1 billion.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

The major projects secured during the year include the building work for a government project in Kulai, Johor and the main construction work for commercial shops in Seri Kembangan, Selangor from a local property developer.

Internally, the Division was awarded the contracts including the construction of residential projects of 5 blocks of *BSP 21* at *Bandar Saujana Putra* and Phase 1-5 of the landed residential units in *Desiran Bayu* in Puchong.

For the financial year ended 31 December 2016, the Construction Division posted a higher revenue by 78% from the prior financial year of RM256 million to RM454 million. More than 85 % of its revenue for financial year 2016 was from in-house jobs. The Construction Division's profit before taxation increased by 98% to RM38 million from RM19 million in the previous financial year.

### PROSPECTS

The outlook of the local construction section is positive underpinned by the on-going infrastructure works and social projects such as MRT line and affordable housing, which will contribute towards a high demand for construction works and benefit the construction sector continue to grow.

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Besides the upcoming works, the Division will continue to provide integrated solutions for other building projects, delivering turnkey design and build capabilities. The Division is confident of order book replenishment in 2017 and will leverage on its proven track record and competitive strength to seize future growth opportunities.

Moving forward, the Division will continue to enhance its proposition and strengthen its rapport with government agency by supplying quality products in its existing projects. It will also continue to seek opportunity to diversify its business income stream such as property development if the feasibility study is favorable.





# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

## SEGMENTAL REVIEW - MOTOR RACING CIRCUIT

### PROFILE



Zhuhai International Circuit (ZIC) is the first permanent racing Circuit built in China. It was completed in November 1996, at the time of its completion, it also held its first international event, the BPR Global GT Series.

ZIC is an FIA (International Motor Sports Federation) approved, 4.3 km long Grade 2 circuit. The high international standard of Zhuhai International Circuit allows it to become the home of Chinese motorsports.

ZIC was designed using a major design consultancy in Australia, including Kinhill Engineering (now known as Halliburton KBR). Famed F1 track designer Tilke GmbH upgraded the track facilities in 2004.

ZIC project is a sino-foreign joint venture with local partner, Zhuhai Jiuzhou Group Holdings Limited, an investment arm of Zhuhai City Government. Under this joint venture, the local partner provided the 264-acre land whereas the foreign partner contributed the capital to develop the racing circuit. LBS is entitled to 60% share of profit of this joint venture.

### VISION



**Harmony:** Harmony leads to a peaceful working environment

**Morality:** Working with good morals and fairness leads to pride and respect

**Cooperation:** Cooperation leads to a successful business partnership

**Cheerfulness:** Cheerfulness adds to fulfilment, satisfaction and joy at work

## OPERATION REVIEW

During the year 2016, ZIC has hosted the annual Pan Delta Super Racing Festival for the Spring, Summer and Autumn races. The action-packed event featured fast-paced racing in the form of Circuit Hero Series, Superbikes, Asian Formula Renault, drifting and stunt show, auto show, food festival and interactive activities. This is the venue for top overseas players enhanced the level of competition and offered an opportunity for domestic players to study and progress.

The Motor Racing Circuit Division recorded a revenue of RM25 million in the current financial year representing an increase of 9% from the previous financial year of RM22 million. Loss before taxation for the financial year 2016 improved substantially to RM8 million from RM15

million in the previous financial year. The improvement was mainly due to the decrease in depreciation charge on racing tracks and grandstands as majority of them have been fully depreciated during the financial year and the write back of provision for staff economic compensation.

To create more value of this Division, the Management together with its local partner are seeking local authorities' approvals on an upgrading and transformation plan to transform the racing circuit into a mixed development comprising motor sports, tourism and cultural elements. The transformation plan is in line with the 21<sup>st</sup> Century Maritime Silk Road strategy introduced by China President Xi Jinping and is also riding on the establishment of "Friendly State and Province" between Malacca State and Guangdong Province.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

The ZIC Upgrading and Transformation Plan will include two additional functional zones onto the existing motorsports theme. The Motor Sports and Services Amenities Zone consists of upgrading the existing race track, developing of a motorsports-themed hotel, and an exhibition hall which caters to the racing industry. The plan will also see the inclusion of a Tourism Zone which will feature a world-class theme park and outlet for premium brands.

The Melaka Cultural and Trade Center will be the third zone which consists of a museum themed after the historic voyage of ZhengHe to the Far East, offering visitors the opportunity to re-live this journey through a series of immersive multimedia displays. There will be a village modelled after the historic town of Melaka with retail spaces to showcase the best of Made-in-Malaysia products. Additionally, there will be a one-stop center to facilitate the development of trade and tourism between Guangdong and Melaka.

In March 2016, we have initiated the transformation plan with the launching ceremony for its Malacca Cultural and Trade Centre and Malacca Cultural Festival in Zhuhai co-officiated by Malacca's Yang di-Pertua Negeri, Tun Datuk Seri Utama Mohd Khalil bin Yaakob, Chief Minister of Malacca, Datuk Seri Ir. Haji Idris Haron and Guangdong Governor, Mr Zhu Xiaodan.

### PROSPECTS

Value of the ZIC land could be further enhanced by the completion of the 29km Hong Kong-Zhuhai-Macau Bridge, which is targeted to be completed in 2017/2018. The bridge opening is set to give a further boost the economy particularly the tourism industry in Zhuhai City. We aligned our strategy to tap onto this advantage to enhance the forthcoming tourism segment in the transformation plan.





# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)



## SEGMENTAL REVIEW - OTHERS

### MANAGEMENT AND INVESTMENT

The Management and Investment Division recorded loss before taxation of RM22 million in the financial year 2016 as compared to profit before taxation of RM5 million in the financial year 2015. The decrease was mainly due to impairment loss of RM27 million on the investment in equity securities listed in the Hong Kong Stock Exchange as a result of significant and prolonged decline in the fair value of the said investment over the past 3 years.

### TRADING AND OTHERS

Businesses classified under "Trading and Others" division includes trading in building materials, insurance agent, selling of insurance membership cards, tourism development, manufacturing and trading of roof tiles.

For the financial year 2016, this Division posted a higher revenue by 248% from the financial year 2015 of RM32 million to RM112 million. The profit before taxation improved to RM1 million in the current financial year from loss before taxation of RM3 million in the financial year 2015. The improvement in this Division's revenue and profit before taxation were mainly from the manufacturing and trading of roof tiles, which was a new business to the Group subsequent to the acquisition of MGB Group. However, this new business was operating in a very competitive environment and in an industry which is experiencing declining in revenue and margins. After due consideration, MGB has ceased such business in July 2016. Thereon, MGB Group has focused in construction segment which is the core driver of their revenue stream.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION

### REVENUE

The Group registered revenue of RM994 million for the current financial year, an increase of 46% which is approximately RM313 million as compared to the previous financial year. The increase was largely driven by the impressive take up rate and steady construction progress from our on-going projects within the regions of Klang Valley, Pahang and Johor. Klang Valley projects accounted

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for 67% of the group's revenue for the financial year 2016, substantially from the projects at *Bandar Saujana Putra* and *D' Island Residence*.

### PROFIT

The Group's profit before taxation increased by 32% to RM144 million from RM109 million in the previous financial year. The increase of RM35 million was primarily due to profit increase of RM82 million from our on-going projects and government grant income of RM22 million received for project development. However, the said profit increase was partially offset by the increase in sales and marketing cost of RM32 million due to surge in properties sale and marketing activities, impairment loss of RM27 million on investment in equity securities listed in Hong Kong Stock Exchange as a result of significant and prolonged decline in the fair value of the said investment and decrease in fair value gain of RM11 million on early receipt of last two tranches of Promissory Notes.





# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

Despite of the increase in net profit of RM15 million as compared to the previous financial year, total comprehensive income decreased by 4% or RM5 million from RM116 million in the previous financial year to RM111 million in the current financial year. This was mainly due to the decrease in foreign currency translation gain arising from foreign operations of RM67 million which has been partially offset by recycling of impairment loss of RM27 million from other comprehensive income to profit or loss and decrease in revaluation loss of RM22 million on the investment in equity securities listed in Hong Kong Stock Exchange.

## TOTAL ASSETS

Total assets increased by RM404 million to RM2.8 billion from RM2.4 billion in the last financial year. The increase was mainly attributable to the followings:-

### a) Accrued billings

The Group's accrued billings increased by 119% from RM149 million in the previous financial year to RM327 million. This was primarily due to timing difference in turnover recognition and progress billings to purchasers and shall reduce gradually upon subsequent progress billings to purchasers.

### b) Land and property development cost

The Group's land and property development cost increased by 15% from RM953 million in the previous financial year to RM1.1 billion. The increase of RM137 million was mainly due to additional certified property development costs incurred and land cost for new land bank for future project development.

### c) Goodwill

The Group's goodwill increased by 51% from RM84 million in the previous financial year to RM127 million. The increase was primarily due to premium paid to acquire:-

- equity interest from minority shareholders to derive greater potential profit from future project developments; and
- MGB Group.

### d) Trade receivables

The Group's trade receivables increased by 61% from RM196 million in the previous financial year to RM315 million. The increase was primarily due to higher sales and new progress billings to purchasers during the current financial year as compared to collection.

### e) Inventories

The Group's inventories increased by 145% from RM77 million in the previous financial year to RM188 million. The increase was mainly come from completed properties in *Cameron Golden Hills* and *D' Island Residence*.

### f) Promissory Notes

The Group's Promissory Notes of RM206 million has been fully received during the financial year, thus gave rise to a decrease in promissory note of RM206 million.

In view of the above, we have strengthened our credit team, expedite project sales and engaged more real estate agents to improve the sales and collection.

## TOTAL LIABILITIES

Total liabilities increased by RM209 million as compared to last financial year was mainly due to the followings:-

### a) Trade payables

The Group's trade payables increased 37% from RM410 million in the previous financial year to RM562 million. The increase was mainly due to additional land owners' entitlements for existing and future project development.

### b) Bank borrowings and overdrafts

Please refer to "Capital Structure and Capital Resources" section below.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## TOTAL EQUITY

Total equity increased by RM195 million compared to the last financial year, mainly due to the followings:-

### a) Share capital

The share capital increased 16% from RM551 million in the previous financial year to RM641 million. The increase was mainly due to exercise of share options under Employees' Share Option Scheme and conversion of warrants during the financial year.

### b) Non-controlling interests

The Group's non-controlling interests increased by RM138 million as compared to the last financial year. The increase was mainly arising from the acquisition of MITCE by MGB.

## CAPITAL STRUCTURE AND CAPITAL RESOURCES

The Group's bank borrowings and bank overdrafts increased by 9% from RM561 million in the previous financial year to RM611 million. The increase in funding was mainly for land bank replenishment in order to sustain development activities, investment in MGB which is expected to complement our property development and construction businesses and repay project development costs.

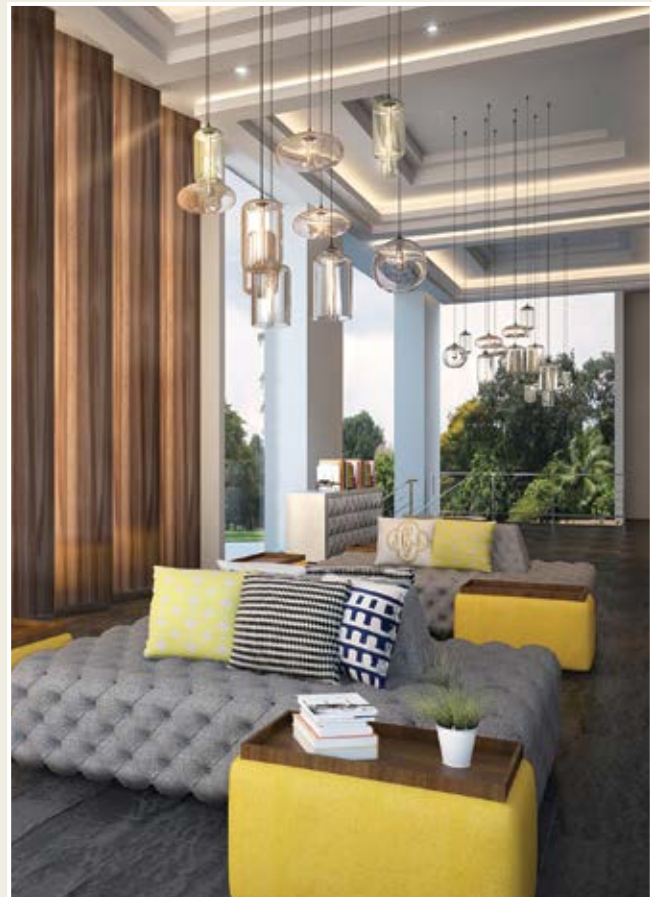
Despite the increase in bank borrowings and bank overdrafts, the Group's gross gearing ratio (total Group bank borrowings and bank overdrafts over Group's total equity) decreased to 0.51 times as at the end of current financial year as compared to 0.56 times in the previous financial year end. The decrease in gross gearing ratio was mainly due to increase share capital of approximately RM90 million arising from the conversion of warrants and share options under Employees Share Option Scheme.

There are still a few joint venture and sale and purchase agreements for project developments pending conditions precedent to be complied. The Group will use internally generated funds and/or source for bank borrowings to ensure land securement and speedy launching of the projects.

The Group strives to maintain a healthy financial position that enables the execution of our strategic objectives in land bank replenishment and creating value for stakeholders over the years.

## CASH AND BANK BALANCES

The Group's cash and bank balances decreased by RM75 million to RM80 million from RM154 million as at the end of last financial year. The cash was utilized mainly for land bank replenishment in order to sustain development activities, investment in MGB which is expected to complement our property development and construction businesses and dividend pay-out.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### 2016 OPERATION HIGHLIGHTS



**1653  
UNITS**

of properties have  
been launched



**RM1.18  
BILLION**

worth of property  
have been launched



**1,127  
UNITS**

of properties have  
been delivered



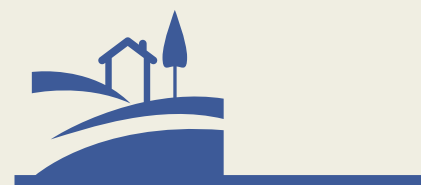
**RM463.2  
MILLION**

of properties have  
been delivered



**14** on-going projects  
in **4 states**:

- Klang Valley
- Pahang
- Johor
- Perak



**865  
ACRES**

added into the land  
bank

# MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

## DUAL DIVIDEND POLICY

The Group had adopted and implemented the following dual dividend policy:

1. **Normal Dividend Policy** where the distribution is based on pay-out rate of at least 30% of the Company's profits after taxation from its ordinary business operations for each financial year.
2. **Special Dividend Policy** where the distribution is based on the receipt of the deferred cash payment from the disposal of investment in China which is expected to be received in 4 tranches from year 2014 to 2017 with a pay-out rate of 6 sen per share or up to 40% of each tranche receipt, whichever is lower.

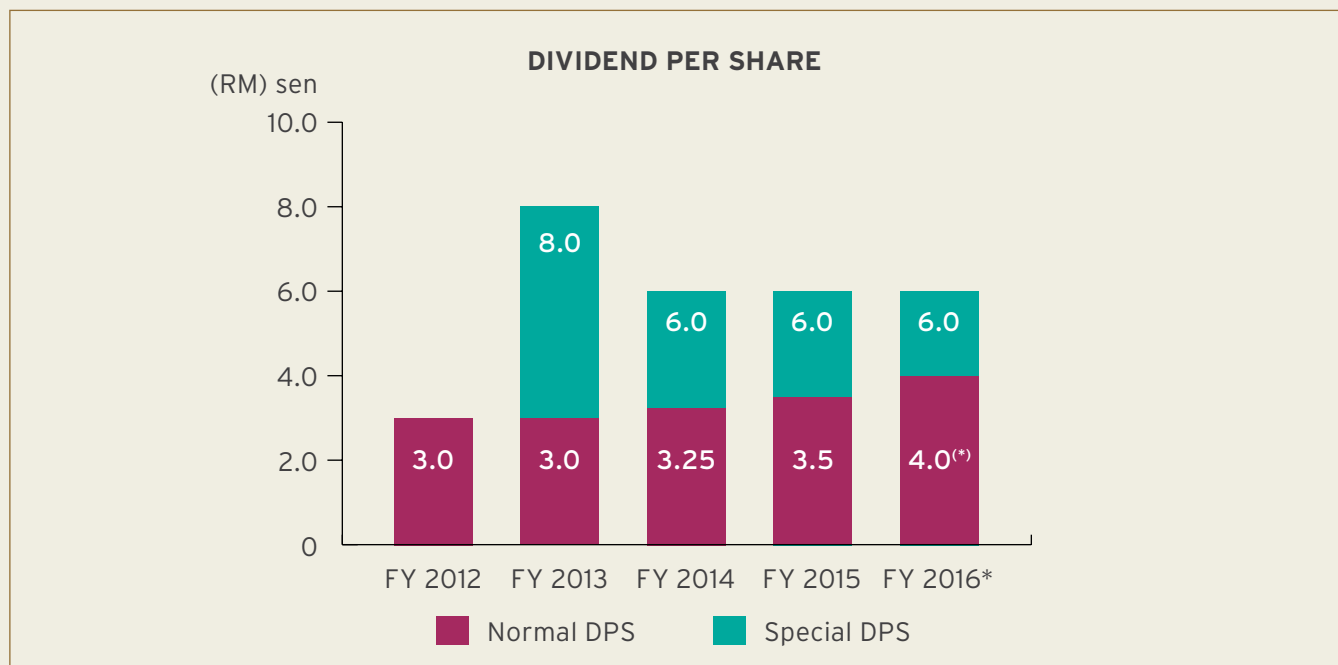
The corporate focus realignment coupled with the Dual Dividend Policy, LBS is confident of delivering sustainable return to shareholders.

For the financial year 2016, the Group had declared a Special Dividend of 6 sen per ordinary share (tax exempt dividend) from the receipt of the final tranche of cash

payment of HKD200 million arising from the disposal of investment in China and a Single Tier Interim Dividend of 2 sen per ordinary share from its ordinary course of business.

In addition to the above, the Board has recommended a Single Tier Final Dividend of 2 sen per ordinary share for the financial year 2016. Subject to the shareholders' approval at the forthcoming Seventeenth Annual General Meeting on the declaration of Single Tier Final Dividend, the declared under the Normal Dividend Policy for the financial year ended 31 December 2016 shall be 4 sen per share representing about 30.2% pay out of the Group's profit after taxation.

For the entire financial year 2016, subject to the shareholders' approval on the proposed 2 sen Single Tier Final Dividend, the Group has declared a total of 10 sen per ordinary share to the shareholders, representing an increase of 5.3% as compared to 9.5 sen declared for the entire financial year 2015.



\*comprising 2 sen of Single Tier Final Dividend to be approved by shareholders at the 17<sup>th</sup> Annual General Meeting.



# MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

## ANTICIPATED AND KNOWN RISKS

Management maintains a comprehensive Risk Register which details risks identified by the Heads of Departments pertinent to the Group's operations. This register is reviewed on a bi-yearly basis as part of the management reporting process by the Risk Manager to the Risk Management Committee and later to the Board after having discussed with the Heads of Department who have reviewed their own particular areas of operation. Thereafter, the assessment of each risk is monitored and where necessary, to improve the management action plans and mitigation measures.

With periodical reviews and changes that are required under the changing business environment, they are then implemented by management to ensure, as far as possible, that the Group's risks are either eliminated or mitigated. More information on risk management and internal control is included within in this Annual Report on pages 140 to 142.

The Group has identified, evaluated and put in place measures to mitigate the principal risks faced by the business operations. Below table shows how the major risks are affecting the strategies of the Group, its impacts and the mitigation actions:

Strategies	Area of risks	Impact towards strategies	Mitigation of risks
Land Banking	<p>The possibility that the Group is unable to source land or joint venture project that could generate reasonable project profit margin.</p> <p>The scarcity of land increases the cost of land banking.</p>	<p>Failure to obtain land or project that derives reasonable profit margin would have detrimental effects on future profitability.</p> <p>Insufficient land would affect the Group's growth targets.</p>	<ul style="list-style-type: none"> <li>Majority of the Group's land banks and projects are sourced via joint venture with land owners as this will reduce the upfront and holding cost.</li> <li>Major land acquisition process was done through careful due diligence, risk assessment and feasibility studies on the proposed land purchases.</li> </ul>
Designing	Possibility that property design does not meet customers' demand.	Change in design subsequent to launching will cause time loss and incur extra cost.	Keep abreast with fast changing trend and preferences of different group of customers by constant communication with customers.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Strategies	Area of risks	Impact towards strategies	Mitigation of risks
Building	<p>Prices increase in labour market and building materials.</p> <p>Shortage of appropriate skilled personnel at site.</p> <p>There are significant risks in health and safety inherent in the construction industry.</p> <p>The climate change which lead to extreme rainfall, flood, land slide and heat wave.</p>	<p>Insufficient appropriate skilled personnel in place coupled with shortage of materials at competitive prices would delay the construction process. As a result, this will affect the Group's growth plan.</p> <p>Injuries to staff, sub-contractor or even visitor at site could delay the construction process and may lead to criminal prosecution or civil litigation. These could have negative impact on LBS Brand, reputation and as a result, extra cost to the Group.</p> <p>Extreme rainfall, flood and land slide may cause damage to existing works at site while heat wave delays or even stops progress at site.</p>	<ul style="list-style-type: none"> <li>• Identify training needs and allocate appropriate resources for training.</li> <li>• Consider outsourcing manpower recruitment.</li> <li>• Ensuring competitive remuneration policies are in place to retain staff.</li> <li>• Improving forward planning in building material sourcing function.</li> <li>• Group purchasing function is in place to ensure competitive prices are obtained.</li> <li>• The Health and Safety Department review and monitor the health and safety issues on a monthly basis.</li> <li>• Regular site visits by Group Managing Director and Executive Directors as well as external consultants to monitor health and safety standard and implementation of the Health and Safety policies and procedures.</li> <li>• The Environment Policy is in place and relevant procedures are implemented to address the relevant issues at site.</li> </ul>



## MANAGEMENT DISCUSSION AND ANALYSIS

(CONT'D)

Strategies	Area of risks	Impact towards strategies	Mitigation of risks
Selling	<p>The risks that affect the sales of the Group include:</p> <ul style="list-style-type: none"> <li>• Interest rate increase</li> <li>• Stringent bank lending rules</li> <li>• Sales incentives</li> <li>• Change in housing policies by government</li> <li>• Low market sentiment in property market</li> <li>• Over promised by outsourced sales agent</li> </ul>	<p>Excessive incentives used to increase sales may affect the profit margin and cash flow.</p> <p>External sales consultants may over promise customers in order to achieve higher sales commission. This would affect the reputation of the Group and also incur extra cost if such promises are to be fulfilled.</p>	<ul style="list-style-type: none"> <li>• Strengthen the determination process for pricing strategy and product range.</li> <li>• Strategise sale incentives to encourage sales, such as lower down payment, interest free instalments for initial down payment.</li> <li>• Enhance customer care procedures to ensure customers are satisfied with sales services. The Customer Service Department has implemented various communication channels for effective communication with different group of customers.</li> <li>• Strengthen the monitoring process of external sales agent and consultant.</li> </ul>
Delivering	<p>Timely delivering of completed units to purchasers may not be achieved due to delay in construction process.</p>	<p>Delay in delivering quality home that result in purchaser claiming Liquidated and Ascertained Damages (LAD) which affect reputation and cash flow of the Group.</p> <p>Complaints from unsatisfied customer may affect the reputation of the Group.</p>	<ul style="list-style-type: none"> <li>• Strengthen the construction process and procedures so that timely delivery of quality homes is achieved at all sites.</li> <li>• Special task force has been formed to check the quality of the completed units before hand over of vacant possession.</li> </ul>