

Issuer: Lion Asiapac Limited
Security: Lion Asiapac Limited

Meeting details:

Date: 31 Oct 2016

Time: 16:00H

Venue: TKP Conference Center Raffles Place, Conference Room 2, 55 Market Street #03-01, Singapore 048941

Company Description

Lion Asiapac Limited, an investment holding company, engages in lime manufacturing, steel trading, and property development activities primarily in Malaysia. The company manufactures quicklime and hydrated lime; and trades in consumables required for steel product manufacturing. It also builds residential and commercial properties for sale; and provides management consultancy services. The company was formerly known as Metal Containers Limited. Lion Asiapac Limited was incorporated in 1968 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BAZ)

Q1. In the Chairman’s Message (pages 2-3 of the annual report), the Chairman updated shareholders that the group is in “the process of divesting the Group’s entire equity interest in Yangzhou Lion Property Development Co Ltd, which holds the land acquired in China for property development”. This was first announced on 26 August 2016 and it was welcome news for shareholders as the group had to make a S\$37.8 million in provision for the project.

However, the Chairman further added that (page 3):

Given the impending divestment, we are on the lookout for suitable projects, so as to build additional revenue streams for the Group.

- a) **As the board is responsible for the overall strategy and direction of the group, can the board let shareholders know what is the capital allocation policy? What guidance does the board give the company in terms of allocating capital to deliver value to all the shareholders?**
- b) **Can management share what are the lessons learnt from the Yangzhou project? Has management reviewed the investment criteria and made changes, where appropriate, to avoid getting into onerous investments?**
- c) The Chairman emphasised the focus to “build additional revenue streams” as the main objective for the group’s diversification. **Should the board guide the company better by focusing on value creation for all shareholders? Should the company make investments only when there are opportunities for the company to value-add? If there are no good investment opportunities for the group to utilise its cash, the board can re-consider the group’s capital management approach and distribute out excess cash where possible.**

Q2. The group has four identifiable segments and from the financial highlights (page 10), it can be seen that all four reported negative results, with the lime segment reporting losses of \$3.1 million and the steel trading segment reporting losses of \$1.2 million.

- a) Lime manufacturing: Segmental revenue from Lime manufacturing dropped from \$22 million in 2015 to \$11 million in 2016. Can management update shareholders on the prospects of the segment? The segmental assets have fallen substantially over the years and depreciation has outpaced capital expenditure. What is the current utilisation rate? Will the group have to make a large capital expenditure to upgrade/maintain its plants soon?
- b) Steel Trading: No revenue was generated for the year. Can management tell shareholders what plans do they have for the segment? Is this still a core business of the group?
- c) Impairment: The group recognised impairment losses on trade receivables of \$2.5 million for FY2016, of which \$2.1 million was accounted under the lime manufacturing segment. In note 16 (page 59 – Trade and other receivables), there is an item “Allowance for impairment of receivables – related parties” amounting to \$5.0 million. Can the audit committee explain what it means by impairment of receivables from related parties? Has the amount increased from \$2.5 million last year to \$5.0 million this year?

- d) Remuneration: Given the operating performance of the group, it was disclosed in the Corporate Governance Report that an executive director was remunerated in the band of S\$250,000 to below S\$500,000 for FY2016 and he had received bonuses that amounted to 24% of his total remuneration payment. Can the remuneration committee help shareholders understand the executive director's contributions and what performance targets did he meet?

Q3. The board currently comprising six directors, two of whom are independent, and four of whom are non-executive. The two independent directors were appointed in 1996 and 1997. One of the independent directors had also served as the company's Managing Director till May 2002. **What are the board's renewal plans?** New directors with the relevant experience and competencies (such as real estate development in PRC, building material/Lime) can help the group to rethink its business strategies and re-energise the group.

Can the nominating committee also further elaborate on how it determined the independence of the directors, especially of the former Managing Director who is now designated as an independent director?