LION ASIAPAC LIMITED
(Co. Reg. No. 196800586R)
(Incorporated in the Republic of Singapore)

Response to SIAS' Questions on the Annual Report for the year ended 30 June 2016

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?

Ans: The Board periodically reviews investment opportunities to ensure that each investment meets the Group's stringent investment criteria. The Board will consider expected financial performance, required capital expenditure, discounted payback and size of potential market, to determine the optimum allocation of funds. It also believes that a well-balanced ratio between working capital and funds for capital investment is vital.

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?

Ans As with all investment opportunities before being approved by the Board, the investment project were subjected to the Group's rigorous due diligence process and were critically challenged by the Board. When the Board decided to invest in 2012, the economic conditions in China were positive and encouraging. However, subsequent deterioration of market conditions, primarily resulting from stringent cooling measures implemented by the Chinese government, renders the project not commercially & financially viable. The Board has decisively halted the project whilst exploring divestment opportunities, thus stamping financial losses to its minimum.

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.

Ans: The Board has always considered it vital to focus on value creation for the Company and rewarding shareholders when profits are reaped, as evidenced when the Group divested its interests in:

(a) a motorcycle manufacturing corporation in FY 2016 and a special dividend of 5 cents per share was paid; and

(b) an automobile manufacturing corporation in FY 2010 and special dividends totalling 25 cents per share were paid.

Lion Asiapac has a long-term approach towards investment which may have development cycles of a number of years. The Group's capital management policy takes into consideration funds conservation, allocation and expansion requirement of the Group. The Company will continue to evaluate available investment opportunities with stringent criteria. Lion Asiapac plans to utilise resources available, whilst ensuring there are sufficient funds for working capital, to capitalise on these investment opportunities, as and when they materialise. The Board cautions that inadequate cash to take up these opportunities will affect the Group's ability to deliver future revenue streams.

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?

Ans: The fall in lime revenue was primarily a result of the deteriorating market conditions. Unfortunately, a substantial part of the Group's revenue comes from the steel manufacturing and related industries, which have, for the past few years, been severely affected by the cheap steel imports from China. The Group is putting in place a cost reduction strategy to position itself for new market segments.

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?

Ans: As mentioned in the answer to Q2(a), unfortunately, a substantial part of the Group's revenue comes from the steel manufacturing and related industries, which have, for the past few years, been severely affected by the cheap steel imports from China. As a result, steel consumables trading has been, and will continue to be, adversely affected. Though steel consumables trading is no longer a core business, as it is opportunistic in nature to the Group, Lion Asiapac will take advantage of it when the opportunities arise again.

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?

Ans: As a result of cheap steel imports from China, some of the related party steel mills, which have been major contributors of the Group's revenues, have shut down their operations. Consequently, prudent accounting practices prescribe that provision for the doubtful collection of these receivables be made. There is a provision for doubtful receivables of $2.5 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?

Ans: The remuneration of the Executive Director is a total package, which has been reviewed and deemed fair and reasonable by the Remuneration Committee. The Executive Director singularly directs and manages the Group's operations in Singapore, China, Malaysia, and Australia. His role includes making strategic recommendations to the Board before implementing Board strategies; he also manages financial, operational and compliance matters both in Singapore and overseas.

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.

Ans: The Board is of the view that the existing Board size is adequate for the Company and the Board members have the relevant diverse experience and expertise, needed for the Group's operations.

The Independent Directors' service tenure does not diminish their independence. On the contrary, their valuable insight gained and an in-depth understanding of the Company accumulated through their years of service, will greatly benefit the Company. In addition, the Independent Directors provide impartial and objective views and advice to the Company. The Nominating Committee has stringently reviewed and deemed the Independent Directors to be independent.

The stability and continuity of the Board is critical and it is not in the interests of Lion Asiapac to refresh its Board members at this point in time. Nevertheless, the Company will continue to review and assess the need to renew its Board.

Q4. 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?

Ans: In evaluating the independence of directors, the Nominating Committee ("**NC**") takes into account the relationship a director may have with the Company and its related corporations, based on the guidelines set out in the Code of Corporate Governance. Additionally, a director's relationship with the major shareholders are also taken into account.

The NC is of the view that a director's independence cannot be determined solely on the basis of length of time. Instead, the substance of a director's professionalism, integrity and objectivity is of utmost importance. The Independent Directors have demonstrated independent mindedness and conduct at meetings, expressed individual views and objectively scrutinised and debated issues.

On the issue of the independence of the former Managing Director, the NC has also taken into account the Code of Corporate Governance which stated that a director is deemed independent 3 years after leaving office.