



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

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## RESPONSES TO SECURITIES INVESTORS ASSOCIATION (SINGAPORE)'S QUESTIONS ON ANNUAL REPORT

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The board of directors (the "**Board**") of Lion Asiapac Limited (the "**Company**") and together with its subsidiaries, collectively the "**Group**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") relating to the Company's annual report for the financial year ended 30 June 2023 ("**FY2023**") and sets out the responses as follows:

### **SIAS Query 1**

On 1 September 2023, the company announced the proposed divestment of its limestone processing and steel consumables trading business via the sale of all the issued ordinary shares of Compact Energy Sdn. Bhd. ("**CESB**"), a wholly-owned subsidiary of the company.

CESB operates two units of 600 tons per day (TPD) twin shaft circular Maerz Limekiln for the production of quicklime, one unit of 9 tons per hour (TPH) hydrated lime plant and one unit of 9 TPH quicklime powder plant. CESB's lime plant is the largest producer of quicklime in Malaysia, with an annual production capacity of 390,000 MT.

The consideration for the sale shares is to be satisfied entirely in cash and is estimated at approximately RM 49.0 million (approximately S\$14.3 million, based on the exchange rates of RM1.00:S\$0.2915 and USD1.00:S\$1.3522).

- (i) **Can the board confirm whether it has conducted a strategic review of the group's operations and initiated the divestment of its limestone processing and steel consumables trading business?**

**Company's Response:**

*The Board and Management have regularly conducted reviews of the Group's business and operations. Following a review of the financial results, by the Board, for the quarter ended 31 December 2022, the Board noted the continued losses incurred by the Group caused by, inter alia, the increase in production costs affecting the Group's lime business and requested Management to look for solutions to address the adverse situation before formulating a turnaround plan. Subsequently, various options were proposed by Management to the Board, which included entering into a new manufacturing contract or exploring the divestment of the Group's lime business.*

*Steel consumables trading continues to be a component of the Group's activities.*

- (ii) **If so, was this change in the group's strategic direction duly communicated to shareholders via SGXNet?**

**Company's Response:**

*The Board has been exploring how to bring the Group back to profitability and has been cognisant of uncertainties in the market outlook in relation to CESB's business for a while now. As set out in the SGXNet announcement on the termination of the construction of a hydrated lime plant on 11 May 2023 and in the Group's Unaudited Condensed Interim Financial Statements for the third quarter and nine-month ended 31 March 2023 as announced on the SGXNet on 11 May 2023, the Group's operations are subject to market conditions, challenges of the lime industry and the*

increase in energy prices in Malaysia, and that escalating costs will continue to pose constraints to the Group's core businesses. The Group has also disclosed that it will continue to look for new business opportunities and will take advantage of any new opportunities that may arise.

The Group had also reiterated the above in the SGXNet announcements on the acquisition of Semangat Meriah Sdn. Bhd. ("**Semangat**" and the acquisition, the "**Acquisition**") dated 21 August 2023 and 30 August 2023, and that the Group's core business of lime sales has been loss-making for some years. The Group also mentioned that it is the Group's objective to exercise prudence in managing business challenges and to seek opportunities as they arise, in particular, profitable businesses which create recurring cash flows for the Group.

Accordingly, the Board has been looking to divest the Group's core business and bring the Group back to profitability with new business opportunities, and this change in strategic direction has been communicated to shareholders of the Company as set out in the SGXNet announcements above.

**(iii) How was the company introduced to the purchaser, Graymont?**

Company's Response:

The Purchaser is an investment holding company of Graymont Limited. Graymont Limited is a global leader in lime and limestone solutions, and is therefore also in the business of limestone processing.

As there are few players in the quicklime industry, the Purchaser has been known to the Group for some time. In particular, Unichamp Resources Sdn Bhd, which is a Malaysian subsidiary of Graymont Limited, is a customer of CESB for hydrated lime products. In the course of negotiating a three-year manufacturing supply contract, discussions between the Purchaser and the Company arose in relation to the divestment of CESB to the Purchaser.

**(iv) Can management disclose the currency and the exact cash consideration to be paid by the purchaser?**

Company's Response:

The consideration for the sale of the entire issued share capital of CESB (the "**Sale Shares**") as at the date of completion of the Proposed Disposal (the "**Consideration**") is to be satisfied entirely in cash. Save for the Retention Sum, being the sum of USD 500,000 that the Purchaser is entitled to withhold from the Consideration pursuant to the terms of the conditional share purchase agreement (the "**Agreement**") entered into between the Company and the Purchaser on 1 September 2023, the current sum of the Consideration is to be paid by the Purchaser in Malaysia Ringgit. As the Consideration is subject to pre-closing adjustments, the exact amount for the Consideration will only be derived nearer to the date of Completion.

It is noted that CESB and the underlying assets/business hold a market leading position in Malaysia.

**(v) How were the negotiations conducted, and was the board in unanimous agreement when approving the deal, particularly considering CESB's valuation of RM 50.7 million?**

Company's Response:

The negotiations were conducted by Management together with its advisers before terms of the Proposed Disposal were presented to the Board for approval. Having considered the factors such as the escalating production costs and energy costs in Malaysia which have and will continue to adversely affect the limestone processing industry, and CESB, being a key lime supplier to the steel industry expecting to face additional operating losses, the Board was in unanimous agreement when approving the transaction.

- (vi) **Does the conditional sale and purchase agreement include any "No shop" provision? If not, has the board engaged with potential buyers to ensure the company secures the best possible deal for its strategic assets?**

Company's Response:

*The Agreement does not include any "no shop" provision. The Proposed Disposal was negotiated on a willing-buyer and willing-seller basis. Taking into account the valuation of CESB conducted by Chay Corporate Advisory Pte. Ltd. as independent valuer in connection with the Proposed Disposal, the Board is of the view that the Proposed Disposal is the best possible deal available to the Company at this point in time.*

- (vii) **Could the company provide an update on the progress made by the group in fulfilling the conditions precedent other than holding the extraordinary general meeting (EGM)? When can shareholders expect the company to hold the EGM?**

Company's Response:

*There are no other conditions precedent other than the condition for the approval of the Shareholders of the Company being obtained in general meeting for the sale of the Sale Shares by the Company to the Purchaser on the terms and conditions of the Agreement. The circular in relation to the Proposed Disposal has been submitted to the SGX RegCo and the Company will hold the EGM as soon as practicable upon the receipt of the circular clearance from the SGX RegCo.*

- (viii) **Could the board provide a detailed account of its deliberations and decision regarding the distribution of capital to shareholders from the net proceeds of approximately RM 48.0 million (approximately \$13.9 million)?**

Company's Response:

*As the Consideration is subject to pre-closing adjustments, the exact amount for the Consideration could only be derived nearer to the date of Completion.*

*As disclosed in the SGXNet announcement on the Proposed Disposal dated 1 September 2023, the net proceeds from the Proposed Disposal is currently intended to be utilised towards (a) the expansion of the business of Semangat; and (b) general working capital to acquire new projects.*

## **SIAS Query 2**

For the financial year ended 30 June 2023, the group reported a loss of \$(3.0) million. The chairman has attributed the losses to geopolitical challenges in his statement:

*"FY2023 was a challenging year for the Group. With global headwinds sparked by the changing geopolitical landscape, the Group reported a loss as a result of escalating production and overhead costs."*

In fact, losses for the group have widen from \$(1.6) million in FY2022 to \$(3.0) million in FY2023. In the previous year, the chairman provided a similar perspective:

*"FY2022 was a challenging year for the Group. With global headwinds sparked by the move towards deglobalisation and the changing geopolitical landscape, the Group reported a loss as a result of escalating production and overhead costs."*

- (i) **Can management elaborate further on the direct impact on the group due to geopolitical developments on the group's business operations? Has the group been agile and successful in adapting to the evolving operating environment?**

Company's Response:

*As a result of the uncertainties in the global outlook and heightened geopolitical tensions, the market demand for the Company's products has contracted. The Group's business operations were also impacted by escalating production and overhead costs. To mitigate the foregoing, the Group adapted by investing in a by-product segment of quicklime, quicklime powder, to create a new pipeline of sales. In this connection, the Group's quicklime powder plant was built in March 2020 and commenced operations in October 2020.*

*Further, as a result of the global increase in the prices of commodities, energy commodity products such as petcoke and coal increased significantly. As petcoke is a burning fuel used in CESB's production lines, CESB's financial performance was dampened by the increase in petcoke prices. To address the increase in petcoke prices, CESB adapted by using a mixture of petcoke and steam coal in the production process to mitigate the increasing prices of burning fuels.*

- (ii) **Has the board evaluated its overall effectiveness, as well as that of each of its board committees and individual directors, in light of the consistent lack of profitability in the operating segments from FY2015 to FY2023? What are the total shareholder returns over the past 5 and 10 years?**

Company's Response:

*As stated in the Company's annual report for FY2023, the Company implemented a formal process to evaluate the performance and effectiveness of the Board as a whole, the contribution by the Chairman, and each director to the Board annually. All directors completed an Assessment Form, assessing the effectiveness of the Board. Criteria include the size of the Board, degree of independence, information flow from Management, adequacy of the Board and Board Committees meetings, accountability, and the Board's conduct.*

*The Board has noted that the lack of profitability in the operating segments in the past few years was mainly due to a decline in customers' orders, adverse market conditions, challenges faced by the lime industry, escalating production costs and unrealised exchange loss from the depreciating Renminbi. As stated in the earlier response, the Board and Management have regularly conducted reviews of the Group's business and operations. Following a review of the financial results, by the Board, for the quarter ended 31 December 2022, the Board noted the continued losses incurred by the Group caused by, inter alia, the increase in production costs affecting the Group's lime business and requested Management to look for solutions to address the adverse situation before formulating a turnaround plan.*

*The total shareholder returns over the past 5 years based on the Company's dividend pay-outs and the historical share price of the Company as of 2 January 2019 and the share price of the Company as of 16 October 2023 is 15.9%.*

*As the Company undertook a share consolidation in June 2015, it is not meaningful to provide the total shareholder returns for the past 10 years.*

- (iii) **Has the board taken steps to hold management accountable for the performance, or the lack thereof, of the operating businesses?**

Company's Response:

*The performance and operation of the Company's lime business have been adversely affected by the escalating production costs and energy costs in Malaysia. As stated in the earlier response, the Board and Management have regularly conducted reviews of the Group's business and*

operations. Following a review of the financial results, by the Board, for the quarter ended 31 December 2022, the Board noted the continued losses incurred by the Group caused by, inter alia, the increase in production costs affecting the Group's lime business and requested Management to look for solutions to address the adverse situation before formulating a turnaround plan. Subsequently, various options were proposed by Management to the Board, which included entering into a new manufacturing contract or exploring the divestment of the Group's lime business.

- (iv) **Separately, can the board disclose the specific measures taken by the group to repatriate its cash holdings of over \$31.8 million (2022: \$35.6 million) from China? Are there any notable challenges faced by the group and does the board intend to set a specific timeline for management to achieve this repatriation goal? Has the group hedged its exposure to the Renminbi?**

Company's Response:

*There was no repatriation of funds from China in FY2022 owing to travel restrictions imposed by the strict Covid-19 regulatory countermeasures.*

*At this point in time, Management has not set a specific timeline to repatriate the funds from China as the Group is still exploring suitable investment projects in China. The Group has been and continues to exercise a prudent approach in deploying its funds in China.*

*The Group does not engage in any currency hedging in respect of the Renminbi.*

Despite a substantial increase in interest rates throughout 2023, the group's interest income declined from \$901,000 in FY2022 to \$761,000 in FY2023.

- (v) **Could the board offer an explanation for this apparent disparity in interest income?**

Company's response:

*The decline in the Group's interest income is owing to the reduction of cash and bank balances in fixed deposits as a result of dividend payments and the deployment of funds for the Group's trading business.*

In August 2023, the group announced and completed the acquisition of Semangat Meriah Sdn Bhd ("**Semangat**") for RM14.0 million. Semangat holds controlling stakes in Swissma Building Technologies Sdn Bhd ("**Swissma**") and Associated Steel Industries (M) Sdn Bhd ("**ASIM**").

The announcement can be found here:

<https://links.sgx.com/FileOpen/20230821->

[Proposed%20Acquisition%20Announcement.ashx?App=Announcement&FileID=769953](https://links.sgx.com/FileOpen/20230821-Proposed%20Acquisition%20Announcement.ashx?App=Announcement&FileID=769953)

- (vi) **How was the group introduced to Semangat?**

Company's Response:

*As part of the Group's on-going strategic review of its business and the Group's search for new business opportunities, Semangat was introduced to the Group by Posim Marketing Sdn Bhd ("**Posim**"), which is a related corporation of the Company. Posim is also a key player in the building material supply industry in Malaysia. The Group thereafter engaged Semangat in discussions for the possibility of an acquisition.*

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**(vii) How was the group introduced to Semangat?**

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**(viii) What due diligence procedures did the board undertake before the group's investment in Semangat, and does the board possess the relevant knowledge and expertise in the construction industry? Will the group be entering the building materials sector despite lacking prior experience, expertise and network?**

Company's Response:

*The Board had appointed UHY Advisory (KL) Sdn. Bhd. as an independent financial adviser to conduct financial due diligence and C S Tang & Co, as an independent legal adviser to conduct legal due diligence on Semangat before the Group's investment in Semangat.*

*While the Board does not possess in-depth knowledge and expertise in the building material supply industry, the Group has retained the services of three (3) key personnel of Swissma and Semangat for a period of two (2) years from the date of completion of the Acquisition. In addition, all existing members of the boards of each of Swissma and Semangat have remained on the respective boards after the completion of the Acquisition. As such, the knowhow, prior experience and expertise of the management of Swissma and Semangat have been retained.*

**(ix) How will the company be able to value-add to Swissma and ASIM in the highend roofing and wall cladding systems businesses given that these operating entities have over 21 years of experience, with Swissma established in 1997 and ASIM in 2002?**

Company's Response:

*The Company intends to augment the working capital of Semangat, and productivity by way of plants and machinery investments. As the Group has retained the services of three (3) key personnel of Swissma and Semangat for a period of two (2) years from the date of completion of the Acquisition, as well as all management staff of Swissma and Semangat, the Company will work closely with the current management of the Swissma and Semangat and tap on its own business network in Malaysia to increase Swissma and Semangat's position in the building material supply industry in Malaysia.*

- (x) **Has the group retained the services of the vendors and/or the senior executives of Swissma and ASIM?**

Company's Response:

*The Group has retained the services of three (3) key personnel of Swissma and Semangat for a period of two (2) years from the date of completion of the Acquisition. The Group has also retained all management staff of Swissma and Semangat.*

**SIAS Query 3**

As noted in the corporate governance report, the group's internal audit (IA) function resides in-house.

- (i) **Can the audit committee (AC) specify the size of the group's in-house audit team?**

Company's Response:

*The Group's in-house internal audit team comprise two members.*

- (ii) **On what basis did the AC consider that the IA function was adequately resourced?**

Company's Response:

*To ensure that the Group's internal audit activities are effectively performed and adequately resourced, the personnel in the Group's internal audit team have relevant qualifications and experience, and are members of internationally recognised professional accountancy bodies. The Group's internal audit staff are also given relevant training and development opportunities to update their technical knowledge and auditing skills. These include attending technical workshops and seminars. The Audit Committee considers the IA function to be adequately resourced as some of the operations are audited more than once a year.*

- (iii) **Can the AC confirm that all the subsidiaries in Singapore, Malaysia and China were included in the IA plan?**

Company's Response:

*All operating subsidiaries of the Group in Singapore, Malaysia and China were included in the IA plan.*

- (iv) **What is the typical length of an internal audit cycle, and what guidance or input did the AC provide to the IA regarding the scope of the internal audit reviews?**

Company's Response:

*The typical length of an internal audit cycle is between 6 to 12 months, depending on the relevant risk assessment, all the subsidiaries in the Group will be subject to an internal audit review at least once or twice in a financial year.*

*The AC has oversight of the performance of the internal audit review. The AC provides guidance to the Group's internal audit relating to opportunities to improve the effectiveness and efficiency of the internal audit review, inputs on the audit methodology used, and ensures that activities of the internal audit function are aligned with the key strategies of the Group.*

- (v) **What was the scope of the internal audit conducted for FY2023, and what were the key findings and recommendations made by the internal auditor?**

Company's Response:

*The scope of the internal audit conducted for FY2023 involved the assessment of the adequacy and effectiveness of the Group's risk management and material internal controls, including financial, operational, compliance and information technology controls and sustainability reporting process.*

*No material findings and significant control deficiencies were noted for FY2023.*

By Order of the Board

Gan Chi Siew  
Company Secretary  
26 October 2023