HONG LEONG INDUSTRIES BERHAD (5486-P)

Key Pertinent Questions and Answers at the 55th Annual General Meeting of HONG LEONG INDUSTRIES BERHAD held at the Auditorium, Ground Floor, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Thursday, 6 November 2019 at 11.00 a.m.

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1. As the Group is in a cash position, it would be good to repay the borrowings with the available cash.

Response:

The Group's borrowings represent the financing for subsidiaries' working capital needs and are short term in nature. The entities with borrowings and those with excess cash are different entities.

2. Noted that in year 2018, HLI shares had been removed from the Shariah Compliant Securities list of the Securities Commission Malaysia and this had caused the drop in HLI share price. Shareholders should be notified on this matter via an announcement to Bursa Malaysia Securities Berhad.

Response:

Management took note of the comment. HLI shares had been reclassified as Shariah Compliant Securities on 28 November 2019.

3. Noted that there was a decline in Yamaha's market share in Vietnam. What were the reasons for the decline and whether Yamaha Motor Vietnam Co., Ltd ("YMVN") had taken any measures to prevent such decline in market share.

Response:

The decline in market share was mainly due to price war which YMVN had taken various measures to mitigate the situation.

4. Please explain what was included in the Net Other Operating Income?

Response:

Net Other Operating Income mainly consisted of net reversal of provision for doubtful debt, net reversal of slow-moving stocks, gain on foreign exchange and dividend income from money market fund. Included in the previous financial year ended 30 June 2018 ("FY 2018") was a write-back of impairment of investment in Malaysian Newsprint Industries Sdn Bhd of RM60 million.

5. Referring to note 30, Capital Commitment, please explain the reason for the increase in capital commitment for financial year ended 30 June 2019 ("FY 2019") against FY 2018.

Response:

The increase was mainly due to higher capital commitment from Hong Leong Yamaha Motor Sdn Bhd for the expansion of its factory.

6. Operating Segments for "Industrial Products" suffered losses for two consecutive years with revenue decreasing to RM418 million for FY 2019 from RM502 million registered for FY 2018.

Share of profit in associated companies in the same period had also dropped from RM121.6 million to RM90.8 million. (Note 29, page 112 & 113, Annual Report)

What were the challenges and how would you address these challenges? What is your expectation for the financial year ending 30 June 2020 ("FY 2020")?

Response:

The Industrial Products segment though suffered losses for the past two financial years, the loss had been reduced from RM13 million for FY 2018 to RM7 million for FY2019. The weak domestic construction industry, the escalation of pulp prices being the key raw materials as well as increased in energy costs were the key challenges faced by the fibre cement business.

Management had explored new export markets with better margins, initiated continuous cost down programmes by improving production efficiency and exploring the usage of recycled pulp as an alternative material. Nevertheless, the business of the Industrial Products segment expects would remain challenging for FY 2020.

Share of profit from associated companies dropped as a result of lower profit recorded by YMVN. YMVN suffered reduction in sales volume as a result of stiff competition from competitors and higher importation of motorcycles in FY 2019. Despite the challenges, the outlook of the Vietnam motorcycle industry remains positive as motorcycles still represent the main mode of transportation for most Vietnamese commuters.

7. **On your Group's geographical revenue performance, Australia, The United States of America, Qatar and Others have registered lower revenue as compared with FY 2018. (page 113, Annual Report)**

   What are the specific issues you faced in these countries? What are the economic sentiments and their outlook in FY 2020 and for the Group's businesses?

   Response:

   In FY 2019, management had rationalised the export market portfolio to improve the overall product margin from export sales. With this, efforts had been taken to increase the exports to core markets with better pricing like Vietnam and Thailand. Export of certain product range of ceramic tiles and fibre cement board to Australia, the United States of America, Qatar and others with low margin had been curtailed.

8. **Without a Group CEO, how does HLI efficiently utilise the big cash reserves on expansion programmes to generate more income in the future?**

   Response:

   With or without a Group CEO, the Group has been constantly looking for investment opportunities to expand its business base.

9. **Leveraged on the Group' matured experience and know-how in Primaboard fibre cement manufacturing autoclaved technology, has the Group ever thought of expanding into light weight Autoclaved Aerated Concrete ("AAC") block and panels manufacturing?**

   Moving forward in the construction industry is more about Industrial Building System and AAC blocks and panels to shorten project timeline and better project cost-efficiency. Fibre cement and AAC blocks / panels would be a good product mix due to a certain extent of manufacturing know-how similarity. With your developed and matured distribution channel in Primaboard for the domestic market and export market, the Group could easily bring the synergy, make it a project package to increase stickiness.

   Response:

   The Group had looked into AAC business before but decided not to invest due to low entry barrier and low export potential. As anticipated, there are now a few more players in this sector, profit margins are being squeezed and business scalability is a problem.