

HONG LEONG INDUSTRIES BERHAD (5486-P)

Key Pertinent Questions and Answers at the 59th 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 Wednesday, 2 November 2022 at 10.30 a.m.

- 1. The supply chain disruption arising from the Covid-19 pandemic affected the supply of motorcycle parts and the Russia-Ukraine conflict caused significant surge in costs for freight, energy and materials (page 14 of AR2022). The fibre cement boards business also faced challenges from supply chain disruption, the rising cost of raw materials and freight that eroded the profit margin. (page 18 of AR2022)**

To what extent is the Group able to pass the increase in cost to its customers? Did the Group raise its various product prices since January 2022? If yes, by how much?

Response:

Since January 2022, the Group has raised the selling prices of various products in the region of 5-10%. This has mitigated the impact of the cost increase of 20-50% of various input costs. The Group has also reduced cost to avoid excessive price increases. The net margin compression in the immediate future is unavoidable.

- 2. Guocera Holdings Sdn Bhd manufactures and distributes a full range of ceramic and porcelain tiles, through its two manufacturing facilities located in Kluang, Johor and Meru, Selangor. Production at the manufacturing plant in Meru was impacted by the severe floods that hit Selangor in December 2021. (page 17 of AR2022)**

(a) What was the total financial and non-financial impact on the Group arising from the flooding incident?

(b) What are the measures taken by the Group to prevent flooding in the future to avoid disruption to its manufacturing plant's operations?

Response:

- a) The financial losses are estimated at RM2.8 million and it has been fully recognized in the Profit and Loss of Financial Year ended June 2022. The whole amount has also been submitted for insurance claim. RM0.8 million of

this claim has been confirmed by the insurance company and the remaining balance is pending assessment.

- b) The Group has taken various measures such as building concrete bund wall at low lying areas, widening and deepening drain gutters to improve water flow rate at in-house drainage, also relocated external warehouses to a new warehouse at higher ground to prevent the disruption from future flooding.

3. Looking forward, Guocera Holdings Sdn Bhd is exploring the establishment of a new plant with fully automated technology that requires minimal manpower and low energy consumption to expand the Group's porcelain product range to grow the Group's revenue and profit base. (page 17 AR2022)

- (a) Where will this new plant be located?**
- (b) What would be the estimated cost of construction and capital expenditure to be incurred for the new plant?**
- (c) What is the targeted timeframe to complete the construction of the new plant?**

Response:

- a) The new plant will be built at the available land area of the existing plant located at Kluang, Johor.
- b) The total investment cost estimated to be around RM400 million.
- c) The new plant targeted to be completed by end of 2024.

4. Notwithstanding the disruptions in outboard motor supply and shipments caused by the adverse global supply chain conditions, HLY Marine Sdn Bhd managed to secure a higher quantity of supply from Yamaha Japan to cater for the increase in domestic demand. (page 19 of AR2022)

In light of the weakened Japanese Yen, are there any opportunities for the Group to capitalise on?

Response:

The weakened Japanese Yen has contributed to a better profit margin to some extent. The Group will continue to explore various product range that can be added or introduced with or without the weakened Japanese Yen.

5. Referring to the management discussion and analysis by business segments as disclosed on pages 15 – 20 of the Annual Report 2022. Please explain why there were no financials analysis detailed by revenue and profit for each of the four businesses.

Response:

Pursuant to MFRS 8, operating segment can be grouped based on the nature of products, the nature of production processes, the type of customers and etc. HLI Group has been reporting its Consumer Products segment (which comprises manufacturing and sale of motorcycles and ceramic tiles) based on type of customers.

Other businesses comprise manufacturing and sale of fibre cement and distribution of marine products are categorised as non-reportable segment as the operations respectively are below the threshold for operating segment pursuant to MFRS 8.

Please refer to :

- (a) *Page 144 Note 23.1* for disclosures of Disaggregation of revenue, categorised by consumer products (motorcycles and spare parts sales and ceramic tiles) and other products (fibre cement and marine related products);
- (b) *Page 152 - 153 Note 30* for disclosures of Operating Segments, reportable segment profit or loss, where:

Reportable segments represented the manufacturing and sale of motorcycles, spare parts and ceramic tiles, which contributed more than 90% of total group consolidated profit before taxation for FY2022.

Non-reportable segments represented the manufacturing and sale of fibre cement products and distribution of marine related products, which contributed less than 10% of total group consolidated profit before taxation for FY2022.

6. In reference to Pg 95 of Annual Report 2022, what was the reason for the lower amount of fund placed in Short-Term Money Market Fund and the Term Investment Account-I?

Response:

The amount of cash invested in the Short -Term Money Market Fund and Term Investment Account-I as disclosed on the face of Statements of Financial Position are those with tenure of more than 3 months. There were also cash invested in the similar funds with tenure of less than 3 months which were disclosed and grouped under the cash and cash equivalents on the face of Statements of Financial Position.

There was lower investment amount for the tenure of more than 3 months as at 30 June 22 mainly attributable to the anticipation of the potential interest rate hike in the subsequent months.

7. With the growing cash positions, what is HLI's plan in next 2 – 3 years?

Profitability of the business is derived mainly from motorcycle segment and it seems very much reliance on one product and Yamaha Vietnam has not been growing that fast.

Would Hong Leong Industries Berhad (“HLI”) seriously looking into other business to reduce the dependency on motorcycle business?

Response:

There are many group of companies where their revenue dependant on single product segment in Malaysia and Globally. The motorcycle business has been performing well and increasing its contribution in both revenue and profit of HLI over the years.

The Group is constantly looking at business expansion either from organic growth or via mergers and acquisitions. The upcoming expansion in our pipeline is the potential investment of RM400 million to build a new plant for our tiles business to capture medium to high end market segment of the porcelain tiles.

8. Has HLI started looking into or started marketing of EV motorcycles? Would HLI considered to use electric outboard motors to replace engine oil based for marine related segment?

Response:

We are bringing one model, namely E-01, electric scooter proof of concept for testing in Malaysia. In our opinion, EV in Malaysia is at an early stage but it would be a trend moving forward.

Factors affecting the EV implementation in Malaysia include amongst other, tight EV regulation in Malaysia which require more than 50km per hour speed limit, safety issue for EV motorcycles riding on highways, prices of EV are still high and subsidies from government.

We will evaluate the right timing for the implementation.

EV for outboard motors is not viable at this juncture due to lack of data from feasibility of the technology, simulation, testing and incidents to assure its safety.

9. For Yamaha Vietnam, how far are they in terms of EV motorcycles? What is our arrangement to work with them in terms of joint exchange of knowledge?

Response:

Yamaha Vietnam has introduced EV motorcycles for export to European markets.

Yamaha Vietnam will launch EV in next year and we will tap on their technology, knowledge and explore the possibility of bringing the product into Malaysia market.

10. For the RM400 million investment in new tiles plant. Please provide justification for the investment and the targeted return for new tiles business? Have you considered to invest in solar energy to reduce electricity charges in ceramic tiles business?

Response:

Our new plant is a modern building plant equipped with high flexibility and highly automated. The proposed new plant will mainly focus on the production of medium to high end products. Once the new plant becomes operational, it will provide us competitive advantage and position us ahead of our local competitors.

This is an investment with reasonably good return.