

Operational & Financial Matters

Question 1

1. Guocera Holdings Sdn Bhd Group's new strategy is to move away from ceramics to focus on the mid to high-end market segments for porcelain tiles, particularly those with distinctive product features and concept-based selling. The immediate and long-term plans are to broaden and deepen market penetration for both domestic and international channels. (page 19 of Annual Report 2021 (“AR2021”))

Apart from key international markets like Vietnam, Thailand, Singapore and Australia where the Guocera brand is well-recognised, what are the Group's plans in terms of penetrating new international markets? What are the other new international markets that the Group targets to penetrate?

Reply for Question (1) above:

For Guocera, besides the few countries mentioned in the question, we also export to Europe, Middle East and America. With our focus on higher-end products, we are now able to offer a better concept range of products via our existing network of customers to improve the demand.

Question 2

2. The Group's revenue contributed by Singapore customers increased significantly to RM34.1 million (2020: RM15.3 million) (Note 30, page 129 of AR2021).

Which of the Group's products attributed to the increase in revenue from Singapore customers? What is the expected demand from Singapore customers for the Group's products, going forward?

Reply for Question (2) above:

The significant increase in the Group's revenue from Singapore customers in FY2021 as compared to FY2020 which was mainly contributed by Guocera Group was because of shorter lock-down period in FY2021.

We believe that our higher-end products will also help to improve our sales from Singapore.

Question 3

3. The Group's 1st quarter ended 30 September 2021 (“1QFY22”) recorded 57.6% drop in revenue to RM277 million (1st quarter ended 30 September 2020: RM652.66 million), while profit before taxation (“PBT”) declined to RM6.2 million (1st quarter ended 30 September 2020: RM93.0 million). The lower revenue and PBT was due to lower sales across all product segments because of Movement Control Order (“MCO”), which caused the curtailment of production for 2 months. (Quarterly Report for 1QFY22)
- (a) With the gradual reopening and normalisation of economic activities, to-date, how and to what extent has it impacted the orders for the Group's products?
- (b) Has the Group's current production level normalised?

Reply for Question (3) above:

- (a) With gradual reopening and normalisation of economic activities, the orders for the Group's products have progressively improved towards the level prior to the recent lock down.
- (b) Although all our factories have resumed operation, there is continual disruptions to our productions as a consequent of COVID-19, supply issues and absence of workers due to quarantine.

HONG LEONG INDUSTRIES BERHAD (5486-P)

Key Pertinent Questions and Answers at the 58th Annual General Meeting of HONG LEONG INDUSTRIES BERHAD held virtually through live streaming from broadcast venue at the Auditorium, Ground Floor, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur on Thursday, 2 December 2021 at 3.00 p.m.

- 1. Guocera Holdings Sdn Bhd Group's new strategy is to move away from ceramics to focus on the mid to high-end market segments for porcelain tiles, particularly those with distinctive product features and concept-based selling. The immediate and long-term plans are to broaden and deepen market penetration for both domestic and international channels. (page 19 of Annual Report 2021("AR2021"))**

Apart from key international markets like Vietnam, Thailand, Singapore and Australia where the Guocera brand is well-recognised, what are the Group's plans in terms of penetrating new international markets? What are the other new international markets that the Group targets to penetrate?

Response:

For Guocera, besides the few countries mentioned in the question, we also export to Europe, Middle East and America. With our focus on higher-end products, we are now able to offer a better concept range of products via our existing network of customers to improve the demand.

- 2. The Group's revenue contributed by Singapore customers increased significantly to RM34.1 million (2020: RM15.3 million) (Note 30, page 129 of AR2021).**

Which of the Group's products attributed to the increase in revenue from Singapore customers? What is the expected demand from Singapore customers for the Group's products, going forward?

Response:

The significant increase in the Group's revenue from Singapore customers in FY2021 as compared to FY2020 which was mainly contributed by Guocera Group was because of shorter lock-down period in FY2021. We believe that our higher-end products will also help to improve our sales from Singapore.

impairment losses are disclosed in Note 30 of the Financial Statements (page 121 of 2020 Annual Report).

- 3. The Group's 1st quarter ended 30 September 2021 ("1QFY22") recorded 57.6% drop in revenue to RM277 million (1st quarter ended 30 September**

2020: RM652.66 million), while profit before taxation (“PBT”) declined to RM6.2 million (1st quarter ended 30 September 2020: RM93.0 million). The lower revenue and PBT was due to lower sales across all product segments because of Movement Control Order (“MCO”), which caused the curtailment of production for 2 months. (Quarterly Report for 1QFY22)

(a) With the gradual reopening and normalisation of economic activities, to-date, how and to what extent has it impacted the orders for the Group’s products?

(b) Has the Group’s current production level normalised?

Response:

(a) With gradual reopening and normalisation of economic activities, the orders for the Group’s products have progressively improved towards the level prior to the recent lock down.

(b) Although all our factories have resumed operation, there is continual disruptions to our productions as a consequent of COVID-19, supply issues and absence of workers due to quarantine.

4. The Group’s inventory has increased from RM212m in FY2020 to RM303m in FY2021. What is the reason of the high inventory on 30 June FY2021. (page 69, Statement of Financial Position)

Response:

The increase is mainly due to the increase in the CKD parts stocks in Yamaha operations. As the CKD parts were ordered 3-4 months ahead, the stocks have increased because of the continuous arrival of the CKD parts during FMCO period while the production was curtailed.

5. Page 22 of AR states that "Earnings, capital expenditure requirements, borrowings repayment, capital adequacy, dividend yield and other relevant factors are considered by the Board in determining the actual dividend payout."

As of June 2021, net cash plus money market fund was RM1.25 billion or RM3.8 per share. The capex was only about RM50 million for FY2021.

As asked in previous AGMs, does the Group have any concrete plan to substantially invest the excess cash in high return projects? Failing that, can the Board set a date to return excess cash to shareholders? This will help to increase the Return on Equity which has been declining.

Response:

The Group has been gradually declaring higher dividend payout over the years with dividend yield around 5% at the current share price. The Group is likely to continue to declare dividend on this basis.

- 6. The share of profit from Vietnam's associate has declined every year from RM134 million in FY2017 to RM36 million in FY2021. Noted that the decline has started before the pandemic. What are the root causes? What have the Vietnamese management done to reverse the trend?**

Response:

There was a strong competition on pricing in Vietnam market especially from the major competitor. Yamaha Vietnam will be introducing a new scooter model and this is expected to enhance the financial performance of Yamaha Vietnam.

- 7. HLI has exited the concrete roofing products and distribution of building materials. The performance of the HLI in the future will be dependent solely on the manufacturing and sale of consumer products comprising motorcycles, spare parts and ceramic tiles.**

With very strong balance sheet and strong cash reserves, can the Board/Management provide some updates/guidance to shareholders on expansion of current core business and potential new business that can reduce its dependence on the motorcycle business in Malaysia and Vietnam for its future growth.

Response:

Both ceramic tiles and motorcycles have great potential to grow their businesses. The Group will continue to explore on new businesses, both in terms of organic growth and inorganic growth. The Group will also continue to look for opportunity for potential merger and acquisitions.

- 8. How is Vietnam e-bike to affect Vietnam's motorcycle industry? Will it affect Yamaha's market share? Will Yamaha come out with e-bike in Vietnam?**

Response:

E-bike market in Vietnam is still very early stage with only a few players involved, this hence would not affect Yamaha's market share for the time being. Nonetheless, Yamaha Vietnam has included e-bike industry in its planning.