

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, 25 October 2018 at 11.00 a.m.

- 1. Noted that the Group has a total shareholder fund of RM1.3 billion, of which RM966 million is distributable. Does the Group have any plans to use it to increase dividend payout? The Group's current annual profit is about RM1.00 per share but the dividend rate should be better.**

Response:

The Group maintains sufficient cash to capture potential good investment opportunities that may come by. The dividend payout has been increasing over the recent years and the dividend yield was 4% for the financial year ("FY") ended 30 June 2018 ("FY2018") based on the share price of RM11.36 on 29 June 2018.

- 2. Noted that the Group has 2 important core businesses, namely manufacturing of motorcycles and buildings materials. It would be ideal if the Group could show the shareholders the performance of each business.**

Response:

The Group has been segregating its operating segments into consumer products and industrial products since the FY ended 30 June 2011 based on the requirements of the Malaysian Financial Reporting Standard. The comment is duly noted and the Board will continue to review the basis of segmental reporting.

HLI
Re: Q&A (2018 AGM)

- 3. Give a brief outlook on the ceramic tile and fibre cement board businesses under the Consumer Segment and industrial Segment respectively. Please also share details on the recent retrenchment exercise undertaken by one of the ceramic tiles Group company.**

Response:

The ceramic tiles business had been very challenging over the past few years and profitability had been under tremendous pressure. Management had decided to close down a very old line and accordingly, a retrenchment exercise was undertaken. The Group is continuously taking steps to reduce dependency on labour by automating its processes.

As for the fibre cement board business, it had not been performing well in the past 3 years due to escalating price of key raw materials. Nevertheless, fundamentally, the fibre cement board business is believed to be a good business to be in and with continuous cost down efforts, the business is expected to perform better in FY2019.

- 4. Will there be any impact from the implementation of Sales Service Tax (“SST”)?**

Response:

There will not be any material impact from the SST implementation as it is very much the same as the previous SST mechanism.

5. **On page 16 of the Management Discussion and Analysis (“MD&A”), it was stated that the total motorcycle industry demand in Vietnam increased slightly by 3% to 3,300,000 units in FY2018 as compared to 3,200,000 in FY ended 30 June 2017 (“FY2017”). However, sales of Yamaha Motor Vietnam Co. Ltd (“YMVN”) decreased to 764,500 units in FY2018 compared to 858,800 units for FY2017.**

What measures have the company taken to address the lower sales arising from the lower scooter models and the drop in demand of “low-end moped” coupled with the intense competition from its main competitor? Will the company continue with the “low-end moped” market segment? What is the company’s market share in this segment?

Response:

The scooters’ sales lost its momentum in FY2018 mainly due to the postponement of a new model launch that was previously planned in January 2018. The company is refining this new model with a new design, new features and new engine to achieve better performance and lower fuel consumption. This model is now target to be launched in December 2018.

The company will continue with the basic moped segment and target to sell more to Vietnamese in the rural area where infrastructure is still less developed. The company’s market share in this segment is estimated at 33% for 2017 and 29% for the period from January to September 2018.

6. **Global oversupply of tiles, market price competition and increasing energy cost continued to be the main challenges for local tiles manufacturers and as stated in the MD&A on page 17 of the Annual Report, the management has taken a series of cost-down programmes to improve plant efficiency and to mitigate rising energy cost.**

Please elaborate on the details of the cost-down programmes implemented in FY2018 and the results achieved so far. What are the new international markets the Group is considering and the type of new products it intends to launch in the sales and marketing front for this segment?

Response:

The cost down programmes implemented in FY2018 include savings from price negotiation and re-formulation of key raw materials, automation of packing lines that reduced plant headcounts and heat recovery system that reduced energy consumption. However, these savings were offset by the impact of lower market price and rising energy cost.

The Group is continuously working on product development and market penetration.

HLI
Re: Q&A (2018 AGM)

- 7. As stated on page 18, of the MD&A, the Group's key focus for FY ending 20 June 2019 (“FY2019”) is to strengthen the market position through product development, innovation and adoption of new technologies to enhance operational processes.
What is the total capital budget the Group would allocate for FY2019 for these initiatives?**

Response:

For FY2019, the Group has budgeted approximately RM19 million for its initiatives on product development, innovation and new technology to enhance its operational processes.