

HONG LEONG ASIA LTD.

(Company Registration No. 196300306G)
(Incorporated in the Republic of Singapore)

ANNUAL GENERAL MEETING (“AGM”) TO BE HELD ON 27 APRIL 2022 - RESPONSES TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

Hong Leong Asia Ltd. (“**HLA**” or the “**Company**”) refers to its announcement of 29 March 2022 on the alternative arrangements for the AGM and in particular, the invitation to shareholders to submit questions that are relevant to the AGM resolutions and the business of the Company, by 13 April 2022 (the “**Cut-Off Date**”). No questions from the shareholders were received as of the Cut-Off Date.

The Company, however, has received questions from the Securities Investors Association (Singapore) (“**SIAS**”) relating to the Company’s Annual Report 2021 and the Company’s responses to the questions raised are set out below:

Q1. As shown in the group profile (page 1 of the annual report), the group has grown from a building materials supplier to a diversified Asian multinational known for its market leadership. The three main divisions are the diesel engine unit, building materials unit and rigid packaging unit.

China is by far the largest revenue contributor to the group, accounting for \$4.45 billion out of the group’s total revenue of \$4.93 billion, or 90%.

Can management help shareholders understand the overall sentiment on the grounds, especially with the recent wave of the Omicron variant in China?

[HLA’s response:](#)

The recent wave of COVID-19 in China has resulted in the partial or complete lockdown of several cities as the country continues to tighten controls in many areas. With such lockdowns, adverse impact to the domestic economy is inevitable with disruptions to global supply chains, factory closures and workforce shortages.

(i) With regard to Yuchai/diesel engine unit, can management explain in greater detail the trading environment as China transitions to National VI engines? How well received are the new National VI engines (10 diesel and 4 natural gas engines) on its S, K & Y platforms?

[HLA’s response:](#)

The total number of engines sold in the financial year ended 31 December (“**FY**”) 2021 increased by 6.2% year-on-year (YoY) to 456,791 units compared with 430,320 units in FY 2020. The increase was mainly due to higher engine sales in the bus engine and passenger vehicles engine markets, and agriculture, marine and power generation engines in the off-road segments, which more than offset the unit sales decline in the truck engine segment.

Growth in engines was weighted towards 1H 2021 just ahead of China’s transition to National VI compliant engines in July last year. Pre-buying of National V compliant vehicles before the transition led to inventory build-up in the distribution channel which led to slower demand thereafter.

Our National VI engines are installed in the trucks and buses of the OEMs, with our S, K, Y platforms providing a full suite of engine for light-medium-heavy duty trucks and buses. In a recent corporate announcement made by China Yuchai International Limited (“CYI”) on 18 April 2022, our upgraded S04 engine series became the first Chinese engine to receive the UN R49.07 Euro VI E stage emission standard certification, reaching the world’s most advanced level and facilitating greater access to the European and American markets.

(ii) Will the implementation of the National VI(b) emission standards create another round of demand uncertainty when it is implemented in 2023?

HLA’s response:

China’s National VI (b) emission standard will be enforced in July 2023 with more stringent requirements especially in exhaust after-treatment systems. We have been preparing for this ahead of time and already have a portfolio of National VI (b) compliant engines since 2021. We believe the industry will become more familiar and better prepared for the transition from National VI(a) to National VI(b) in due course.

(iii) How much will Yuchai be committing to the R&D for new energy solutions in hybrid power and fuel cell development? As noted in the CEO’s review, Yuchai achieved sales of 501 units of new energy engines during the year. Does Yuchai have market leadership in new energy solutions?

HLA’s response:

While we have committed substantial resources to continually improve the technology and the competitiveness of our products, it would not be in the interest of stakeholders for us to disclose or share such information prematurely. Our efforts are focused on designing new products, improving manufacturing processes and adapting international technology to the Chinese market. We will continue to enhance our technology through partnerships with Chinese research institutes as well as international engine design consulting firms and manufacturers.

(iv) Is Yuchai prepared for a future where diesel engines, or internal combustion engines, may be phased out?

HLA’s response:

Yuchai has commenced development programs for new energy powertrains. It is advancing towards alternative fuels and cleaner engines with improved fuel efficiency including next-generation hybrid powertrains, range extenders, electric axles and hydrogen fuel cell systems. Meanwhile, it also continues to improve on its existing product range. For example, in November 2021, CYI announced the IE-Power as China’s first heavy-duty tractor CVT (Continuously Variable Transmission) hybrid powertrain for heavy-duty agricultural equipment.

(v) In addition, China Yuchai International Limited is listed on the New York Stock Exchange. What is the strategic value of CYI’s listing on the NYSE? Are there challenges and/or difficulties faced by CYI in maintaining its listing status in the NYSE?

HLA’s response:

CYI has been listed on the New York Stock Exchange (“NYSE”) since December 1994. The listing has served us well for many years. While there is no immediate threat to our listing status, we are monitoring the developments of the U.S. Securities Exchange Commission’s Holding Foreign Companies Accountable Act (HFCAA) and its implementation details. The board will continue to evaluate all available options to improve shareholder value.

Q2. In August last year, the group announced the proposed acquisition of additional shares in Singapore-listed BRC Asia Limited. The transaction was completed in October 2021, making BRC Asia an associated company of the group. The group acquired 46 million additional shares for \$68.1 million. Along with previously acquired shares, the group now holds a 20% stake in BRC Asia which it carries at \$83.4 million. BRC is a market leader in providing steel reinforcement solutions in Singapore, offering standard length rebar, cut and bend services, prefabrication services, as well as standard and customised welded wire mesh for the building and construction industry (page 13).

(i) Are there synergies between BRC and the group's existing operations?

HLA's response:

The investment in BRC Asia Limited ("**BRC**") allows HLA to expand its interest in the building materials sector in Singapore with increased technology and automation opportunities. For example, Prefabricated Prefinished Volumetric Construction (PPVC) building technology is an area where synergies in concrete and steel reinforcement solutions can be realized.

(ii) If not, are there opportunities for management to value-add to BRC? Is the group a passive investor in BRC? What is the level of oversight and influence over the day-to-day and strategic matters?

HLA's response:

While HLA is not a passive investor in BRC, we do not have oversight on the day-to-day operations. Two officers from HLA joined BRC's enlarged board in February 2022 in non-executive capacities and will contribute to strategic matters that require the BRC board's inputs.

(iii) How aligned is this investment with the group's sustainability framework, especially the key pillar of driving innovation for a low-carbon and circular economy?

HLA's response:

As mentioned above, HLA does not have oversight of BRC's day-to-day operations. Through the Board representations, we can influence and also learn from them on a multi-stakeholder transition towards a lower carbon built sector environment.

(iv) Did the board also evaluate how it is balancing improving shareholders' returns (via dividends) and reinvesting in the business?

HLA's response:

Yes. The Board of Directors of the Company (the "**Board**") is continuously evaluating the balance between investments in innovation, in generating returns as well as in improving shareholders' returns (via dividends). For FY 2021, the Board has recommended a first and final one-tier tax exempt dividend of 2 cents per ordinary share, subject to shareholders' approval at the upcoming AGM (FY 2020: 1 cent per ordinary share).

In addition, the company considers HL Global Enterprises Limited (“HLGE”) as a subsidiary. HLGE reported an unaudited loss of \$(1.63) million for FY2021. The accumulated loss was \$(65.5) million as at 31 December 2021.

(v) Would the board/management help shareholders understand the level of oversight of HLGE? Has the board analysed the long-term performance of HLGE? Is the board satisfied with the performance of HLGE? What is management’s strategy to maximise the value of HLGE for all shareholders?

[HLA’s response:](#)

Based on the Annual Report 2021 of HLGE, its key operating asset is the Copthorne Hotel Cameron Highlands (“CHCH”) in Malaysia. The hotel’s occupancy rate has been negatively impacted by the COVID-19 pandemic, which led to a net loss attributable to shareholders of S\$1.4 million for FY 2021. CHCH has taken the opportunity of the lull to renovate the superior rooms and upgraded the lifts. There are plans to refurbish the old commercial complex next to the hotel into additional hotel and function rooms, and documents have been submitted to the Planning Department for their review and comments. Furthermore, discussions are in place to develop a 40-unit high rise apartment block and consultants are preparing the documents for submission to the relevant authority. These investments over time will help to improve the product offering and enhance the value of the property and in turn maximize the value for HLGE shareholders.

Q3. In the corporate governance report, the company disclosed that, as part of the internal audit program for FY2021, the internal auditor (IA) identified control weaknesses at some of the group’s subsidiaries. The external auditor, during the audit of the financial statements of the group, have also identified certain deficiencies in internal controls. Management has assessed and determined that the deficiencies do not have significant financial impact on the financial statements of the group for FY2021. Management action plans have been initiated to address the deficiencies identified by the IA and EA, especially in the group’s China operations. The board highlighted that the majority of the group’s businesses are located in China, which is “a challenging control environment to operate in” (page 52).

(i) What are the control weaknesses and the deficiencies in internal controls identified by the IA and by the external auditors?

[HLA’s response:](#)

As part of the year’s audit, certain deficiencies in internal controls over processes and transactions within the normal course of the Group’s business were identified. These include strengthening of internal communications of policies and procedures, as well as sufficiency and retention of documentation. Management action plans have been developed to address these deficiencies, which did not have significant financial impact on the Group’s financial statements for FY 2021.

(ii) Can the board elaborate further on the “challenging control environment” in China? What are the major risks?

[HLA’s response:](#)

Lockdowns across Chinese cities will continue to impact global supply chains that are still recovering from two years of pandemic-related setbacks. Shortage of raw materials, rare metals and semiconductor chips as well as power and shipping disruptions are some examples. Travel and access restrictions have also made it harder for management visits to China to review the operations. However, we believe overall economic sentiment will gradually improve as the cities emerge from their lockdowns.

(iii) What is the length of the internal audit cycle? What is the scope of the internal audit in FY2021 and in FY2022?

HLA's response:

HLA uses a risk-based approach in its annual scoping for audit areas. In determining the audit scope, Internal Audit has considered the key strategies and risks across the Group's businesses, focusing on financial, operational and IT controls including compliance with applicable laws and regulations. In general, the internal audit cycle is one year for each Business Unit ("BU"), and the audit areas identified for each BU are covered over one to three years cycle, depending on the results of the risk assessment performed.

By Order of the Board
HONG LEONG ASIA LTD.

Ng Siew Ping, Jaslin
Yeo Swee Gim, Joanne
Company Secretaries

20 April 2022