

DRB-HICOM

Annual General Meeting

Queries & Answers for Minority Shareholder Watchdog Group (MSWG)

30 September, 2014

Question 1:

As disclosed in Note 59 of the Annual Report, the Automotive Segment recorded revenue of RM10.7 billion and profit of RM88.2 million for FYE 31 March 2014 compared to revenue of RM10.1 billion and profit of RM194.9 million in the previous financial year.

What was the reason for the decrease in the profit of the Automotive segment despite an increase in revenue?

Answer 1:

The increase in revenue for FYE 31 March 2014 (FY14) was largely attributed to the inclusion of sales revenue of Composites Technology Research Malaysia Sdn. Bhd., the newly acquired subsidiary company during the financial year and also the higher revenue from other automotive companies.

The decline in profit for the Automotive sector for FY14 was mainly caused by performance of PROTON group which was adversely affected by the lower sales from 147,089 units previously to 139,299 units in FY14.

Question 2:

While we note that PROTON remained as the second most popular car brand in Malaysia, its market share in passenger vehicles as at June 2014 of 21.2% was lower than its market share of 24.1% as at December 2013, according to the Market Review by Malaysian Automotive Association.

- i. What are the measures to improve PROTON's market share in the country?

Answer 2 (i):

- a) PROTON is working on developing the new range of products and powertrain for the mid to long term to replace existing models which will be gradually phased out over the coming years.
- b) PROTON will continue to optimize the existing product range and improve the specifications, as well as brand and price positioning. To date, PROTON has rolled out the following models and variants:
- Persona 1.6 Executive (August 2014)
 - Saga 1.3 Executive (July 2014)
 - Perdana (December 2013) – government cars
 - Persona SV (November 2013)
 - Saga SV (June 2013)

Answer 2 (i) (cont'):

- c) To augment our position in the B segment, PROTON introduced a new model named “Iriz” on 25 September 2014, 1.3-liter and 1.6-liter compact car to represent PROTON in the B-hatch segment. As at 24 September 2014, 17,000 bookings have been recorded during the 1-week pre-launch activities.

- d) Cost and Quality approach to maintain competitiveness with the right product quality, putting high emphasis on safety.

Question 2(ii):

Could the Board also provide an update on PROTON's turnaround plan under the leadership of the newly appointed Chairman?

Answer 2(ii):

Guided by the acquisition plan, DRB-HICOM has set specific channels for transformation of PROTON, mainly to focus on three (3) main areas:

- 1) Finalisation of Long Range Product Plan spreading over a period of 5 years to strengthen product offer and market presence
- 2) Rationalisation of sales and after-sales network towards improvement of PROTON Customer Satisfaction Index (CSI), Sales Satisfaction Index (SSI) and Initial Quality Study (IQS).
- 3) Review on the overall export strategy.

Question 2(iii):

Could the Board also update on the latest development in the Group Lotus Plc as we note a new CEO has been appointed in May this year?

Answer 2(iii):

In the first 5 months of FY14/15, LOTUS sold 914 units globally, putting it on course to comfortably top the 1,232 units sold last year. Additionally, Group Lotus is progressing with its turnaround initiatives as follows:

- a) Enhance engagement with dealers and suppliers resulting in higher confidence level.

Answer 2(iii) (cont'):

- b) Review and appointment of dealerships, especially in Europe and Asia. Over the last 6 months, 9 new dealers have been appointed including in Germany, France, Iran and Philippines.**
- c) Stabilize production to 40 units per week from 20-30 units previously.**
- d) Improvement on product quality and cost.**
- e) Manpower rationalization which was recently announced.**

Question 3:

As stated in the Group Managing Director's Review of Operations, the Group completed two major acquisitions, namely Composites Technology Research Malaysia Sdn Bhd and Konsortium Logistik Bhd, which would strengthen the Group's Automotive and Services sectors.

Would the Board expect these two acquisitions to have significant contribution to the Group's revenue and earnings for FYE 31 March 2015?

Answer 3:

The acquisition of CTRM provides immediate access into the aero-nautical sector especially in the rapidly expanding demand for aircrafts from the aviation companies. CTRM is a super tier-2 supplier to Airbus and Boeing. As at 31 March 2014, CTRM has an outstanding order book of RM5.68 billion up to the year 2020.

Konsortium Logistik Berhad (KLB) on the other hand, together with KL Airport Services Sdn Bhd (KLAS), will allow the Group to rationalize its logistics business and strengthen the Group's logistics operations domestically and regionally.

Answer 3 (cont'):

This is further complemented by the extensive network of Pos Malaysia, our associated company, and the Group will be able to lead in the provision of integrated logistics services including the extension of our services to the last-mile through Pos Malaysia. The logistic business is one of the fastest growing sectors in Malaysia with an estimated market size of RM196 billion in 2015 and is expected to grow rapidly to RM240 billion by 2020.

These two new acquisitions, CTRM and KLB, are expected to contribute positively to the Group's revenue and earnings going forward.

Question 4:

What was the reason for the increase in research and development expenditure from RM33 million to RM66.9 million in FYE 31 March 2014?

Answer 4:

The research and development (“R&D”) expenditure incurred by the Group was largely contributed by PROTON. PROTON as a full-fledged car manufacturer will generally incur a relatively significant amount on research and development activities in developing new models, powertrain and other related technology. Research expenditure is recognised as an expense when incurred, pursuant to the approved accounting standard.

THANK YOU
