Annual General Meeting

Queries & Answers for Minority Shareholder Watchdog Group (MSWG)

19 September 2013

Question 1:

As stated in the Group Managing Director's Review of Operations, the completion of DRB-HICOM's acquisition of PROTON in 2012 had impacted its bottom-line for FY2013, reducing the Profit Before Tax to RM1.04 billion. (FY2012 : RM1.82 billion)

i) To what extent did the acquisition of PROTON impacted the bottom-line of the Group for FY2013?

Answer 1 (i):

The higher PBT of RM1.82 billion for FY2012 as compared to RM1.04 billion in FY2013 was mainly due to the recognition of the negative goodwill of approximately RM1.28 billion on the acquisition of PROTON.

However, to finance the acquisition of 100% equity stake in PROTON, the Company raised new borrowings which resulted in additional finance cost that had affected the financial results for FY2013.

Question 1 (ii):

What is the Board's expectation on the performance of PROTON for FY2014?

Answer 1 (ii):

It has been our aspiration to steer PROTON forward and make PROTON the Number 1 choice again in Malaysia. To achieve this, PROTON has developed a comprehensive 5-Year Business Plan with specific focus on the following areas:

Answer 1 (ii) (cont'):

a) Market Focus

1. Rationalization of EON and Proton Edar for improved efficiency and effectiveness.

2. Strengthen export market with specific focus on ASEAN, Australia, United Kingdom, GCC/MENA and South Africa.

b) Strategic Collaboration

Leveraging on strong partnership with our existing principals (OEMs) to attain equitable benefits in terms of technology advancement, platform/product sharing, new markets and adoption of best-practices.

Answer 1 (ii) (cont'):

c) Product range

Emphasize on enhancement of existing models and new product development. The recently launched Saga SV and Suprima S marked strong indication that PROTON is focusing on value proposition for consumers. Perdana replacement model and the Global Small Car (GSC) are expected to make their debut soon.

Answer 1 (ii) (cont'):

d) Total Quality Management

Quality improvement is being assessed throughout the business value chain i.e. product development, manufacturing and customer service as well as the business partners at vendor network, and sales and service dealers.

e) Vendor enhancement in the areas of Quality, Cost and Delivery (QCD)

f) Plant capacity optimization and operational efficiency

g) Human capital development

Answer 1 (ii) (cont'):

h) Brand building

1. Focusing on value of safety and drivability performance.

2. Emphasize on the element of "Total Ownership Experience" which covers three (3) key elements – product appeal, customers' accessibility & convenience, and service quality.

However, FY2014 continues to be a tough and challenging year for PROTON. Notwithstanding that, PROTON remains confident that it will be able to achieve the critical milestones as set out in the 5-Year Business Plan.

Question 2:

It was stated that a Revised Business Plan has been put in place for Lotus, focusing on expanding sales potentials, offering better and wider range of products and managing business operations more effectively.

Could the Board provide an update on the performance of Lotus and has the Revised Business Plan for Lotus resulted in positive development for the division so far?

Answer 2:

Lotus Business Plan was developed comprehensively with specific focus on sales enhancement, product development, powertrain integration, quality and manufacturing operations and financial improvements. The development activities are guided through several phases as follows:

i. **Refinement of existing model range Elise, Exige and Evora**
ii. **Refreshment through Evora-R and Exige-R**
iii. **New generation of Elise, Exige, Evora & Esprit as well as front-engine models of Elan and Elite**

Answer 2 (cont'):

To further improve the overall business operations and streamline the policies and procedures with the Group, experienced personnel have been assigned to Lotus (UK) to improve the overall business operation.

Key achievements to date:

1. Product refinement has resulted in the improvement of quality of Lotus cars to cater to all markets, which saw encouraging orderbook.

2. Work has already commenced on the refreshment models for Evora R and Exige R and is expected to be completed by 2014.

Answer 2 (cont'):

3. The design work for new generation model (Elise) has already started.

4. The improvement in manufacturing efficiency which saw production increased to about 44 to 50 units from about 35 units per week previously.

5. Prudent cost management has been put in place at Lotus and has seen significant cost improvement.

Question 3:

The administrative expenses increased from RM914.4 million in FY2012 to RM1.69 billion in FY2013. What measures have been taken to manage and control these costs?

The higher administrative expenses of the Group for the financial year ended 31 March 2013 was primarily due to the inclusion of 12 months PROTON Group's administrative costs compared with only half a month in the previous financial year. PROTON became a subsidiary company of the Group on 16 March 2012.

The Group has implemented various cost management and process improvement initiatives to enhance the operational efficiencies of the various business sectors.

Question 4:

Could the Board provide more details on the capital expenditure amounting to RM2.45 billion (FY2012: RM2.71 billion) as disclosed in Note 56 on page 250 of the Annual Report?

Answer 4:

The disclosure of capital commitments in the audited financial statements is in relation to proposed capital expenditure for various business operations by DRB-HICOM Group companies. The major portion of the capital expenditure is expected to be incurred by the Automotive and Defence companies of the Group namely PROTON, HICOM Automotive Manufacturers (Malaysia) Sdn. Bhd. and DEFTECH.

Answer 4 (cont'):

The capital investments are to meet the requirements of the current and future businesses of the Group such as expansion of plants, research and development of new products, purchase of machineries and equipment, etc. These investments are expected to generate positive returns in the future.

Corporate Governance Matters:-

We noted the disclosure on page 78 of the Annual Report where the non-audit fees of RM5.3 million was higher than the audit fee of RM5.1 million for FY2013. What was the nature of these non-audit services apart from taxation services?

Answer:

The non-audit fees (other than fees for taxation services) for the financial year ended 31 March 2013 are mainly in respect of assessment of Entity Level Internal Controls and Process Reviews on PROTON group (including Lotus) and the Purchase Price Allocation review (to determine the fair values of PROTON's net assets in accordance with FRS 3 'Business Combinations').

Answer (cont'):

The above services were undertaken upon the acquisition of PROTON and its related companies and were rendered by Messrs. Ernst & Young, in Malaysia and the United Kingdom.

THANK YOU