DRB-HICOM

Annual General Meeting

Queries & Answers for Minority Shareholder Watchdog Group (MSWG)

29 September, 2016

Question 1:

As disclosed in the Group Managing Director's Review of Operations, DRB-HICOM Group revenue dropped to RM12.17 billion from RM13.69 billion in the previous year. The Group also incurred pre-tax loss of RM821.27 million compared with a pre-tax profit of RM 501.83 million the previous year. The Group's performance was affected by the reduced revenue contribution posted by number of companies in the Group particularly by companies in the Automotive sector.

Question 1 *(cont'd)*:

(i) What were the companies that contributed to the Group's decline in revenue and pre-tax loss?

(ii) Which are the factors that contributed to the lower revenue and pre-tax loss of the Group?

Answer 1(i) & (ii):

Group Revenue

The decline in Group's revenue by RM1.5 billion was mainly caused by lower sales of PROTON and Volkswagen motor vehicles. PROTON group sold 95,690 vehicles in FY 2016 compared with 113,021 vehicles in the previous year, whilst the sales of Volkswagen vehicles by DRB-HICOM Auto Solutions Sdn. Bhd. to Volkswagen (Malaysia) Sdn. Bhd. was 2,932 vehicles against 9,584 vehicles in the previous year.

Answer 1(i) & (ii) *(cont'd)*:

The lower economic growth alongside with volatile foreign exchange rates, weaker consumer sentiments and stringent bank lending conditions affected the performance of the automotive companies.

Group Revenue	FY 2016 RM'000	FY 2015 RM'000	Variance RM'000
PROTON	4,834,463	5,823,794	(989,331)
DHAS	277,481	955,090	(677,609)
Others	7,060,997	6,908,955	152,042
Total	12,172,941	13,687,839	(1,514,898)

Answer 1(i) & (ii) *(cont'd)*:

Group Pre-Tax Loss

The adverse results of PROTON caused the Group to suffer a pre-tax loss of RM821.27 million in FY 2016. PROTON incurred a pre-tax loss of RM1.48 billion which was partially mitigated by the total profits achieved by other operating companies in the Group totaling RM661.7 million resulting in a net loss of RM821.27 million as presented below:

	FY 2016 RM'000
Profits of other operating companies	661,707
Losses of PROTON	(1,482,974)
Net	(821,267)

Answer 1(i) & (ii) *(cont'd)*:

The lower revenue and higher losses of PROTON were mainly due to:

1) **Lower sales volume (95,690 vehicles vs 113,021 vehicles) coupled with unfavourable sales mix resulting in lower margins.**
2) **Higher sales campaign and promotional expenses in view of stiff competition and challenging market conditions.**
3) **Impairment of certain intangible assets/project expenditure and provision for unamortised tooling costs.**

Question 1(iii)

Moving forward, what are the measures taken to improve the performances of these companies?

In the increasingly challenging business landscape, the Automotive companies will continue their efforts to improve cost management and enhance operational efficiencies whilst intensifying their marketing efforts and launching of new models/variants to enhance higher sales volume.

PROTON has recently launched the new Perdana, Persona and Saga models and these launches are expected to improve the sales performance for the financial year.

Answer 1(iii) *(cont'd)*:

PROTON is also focused on the execution of its turnaround plan to develop a strong foundation for sustainable business and currently undertaking a Request for Proposal (RFP) exercise to seek a strategic partner who can provide a strategic and operational business model to grow its business sustainably.

Question 2:

In the Group Managing Director's Review of Operations, it was stated that the Group will focus on growing its other businesses to create new revenue streams in an effort to shift the position of the Automotive sector as the Group's largest revenue generator due to the Automotive sector being extremely sensitive to economic conditions.

Which businesses would the Group likely focus on growing and what was the reason for the Group to focus on these businesses?

Answer 2:

The integrated logistic businesses will be the new business focus for DRB-HICOM Group. The recent integration of postal and logistic services via the injection of KL Airport Services (KLAS) group into Pos Malaysia will enable seamless integrated logistics services which not only provides the first and last mile services, but also to tap into the high growth e-commerce business. The Group will provide both domestic and regional businesses with integrated logistics solutions and total supply chain management which will enhance the revenue growth.

Question 3:

It was reported in the Annual Report that "as part of the turnaround plan, Lotus aims to be self-sufficient, enabled by the development of new models, global network expansion plan and the synergy with PROTON on technical collaborations."

(i) Is the Board confident that Lotus would be self-sufficient within the expected timeframe of PROTON's 5-year Business Plan in charting out the growth of the company?

Within the next four (4) years, Lotus is expected to generate sufficient cash to continue renewing existing platforms and stabilise production and sales.

Answer 3(i) *(cont'd):*

As part of its efforts to improve financial performance and working capital, the following key actions have been undertaken between 2014 and 2016:

1) Reduction of overhead cost from £58.2 million to £35.4 million

2) Reduction of inventories from £35.7 million to £16.6 million

3) Lower new product investment in 2016 and 2017 as future launches will be based on existing platform

Question 3(ii):

How did Lotus perform for FY 2016 and how does the Board expect it to perform for FY 2017?

We expect Lotus to improve its performance in FY2017 through the following:

1) **Lotus has successfully launched the new Evora 400 in the US market in August 2016.**

2) **The production from September 2016 onwards has stabilised at around 180 to 200 units per month.**

Answer 3(ii) ***(cont'd)*****:**

3) Lotus is on track to increase dealers from 137 in March 2014 to 215 dealers by March 2017.

4) Lotus Engineering is expected to achieve its target of £12 million revenue in 2017 which will contribute to stabilising revenue and margins.

5) Lotus is currently developing the next generation of PROTON engine.

Question 4:

Allowance for doubtful debts (net of write back) for project development receivables amounted to RM120.5 million (FY 2015: Nil).

(i) What was the nature of this amount?

(ii) What is the likelihood of recovery for these receivables?

Answer 4(i) & (ii):

This allowance is in respect of research and development costs incurred in relation to the Electric Vehicle (EV) project by PROTON. Due to certain technical and commercial issues, the implementation of the project was delayed. In accordance with the accounting standards, an amount of RM120.5 million has been provided for in the financial statements. PROTON will be submitting the revised commercialisation plan for the EV project to the Ministry of Energy, Green Technology & Water and upon getting the approval for the project and the grant, PROTON will be able to recover the research and development costs incurred.

Question 5:

What was the reason for the increase in other expenses from RM113.95 million in FY 2015 to RM327.72 million in FY 2016?

Included in the other expenses are the following major items that have been charged to the profit and loss account in accordance with the requirements of the respective financial reporting standards (FRS) as follow:

Answer 5 *(cont'd)*:

1) Impairment loss of intangible assets (FRS 136) of RM81.47 million.

2) Marked to market loss on financial derivatives (FRS 139) of RM62.23 million.

3) Foreign exchange differences (FRS 121) of RM58.94million.

4) Impairment loss of investment securities: available-for-sale (FRS 139) of RM22.83 million.

5) Research and development expenditure (FRS 138) of RM21.48 million.

THANK YOU