DRB-HICOM

Annual General Meeting

Queries & Answers for

Minority Shareholder Watch Group (MSWG)

30 August, 2018

Strategic and Financial Matters

Question 1:

We note on page 84 of the Annual Report that revenue from the Group’s Services Sector rose 26.5% due to better performance at Pos Malaysia Berhad and Alam Flora Sdn Bhd (“Alam Flora”). On 1 August 2018, the Board announced on Bursa Malaysia Securities Berhad that HICOM Holdings Berhad is disposing its 97.37% equity interest in Alam Flora to Tunas Pancar Sdn Bhd (“Proposed Disposal”).

Question 1 *(cont'd)*:

i. **Please provide the percentage revenue and net profit contribution by Alam Flora to DRB-HICOM Group for the financial year ended 31 March 2018 ("FYE2018")?**

For the financial year ended 31 March 2018, the contribution of Alam Flora's revenue and net profit to the DRB-HICOM Group was approximately 6% and 19% respectively.

Question 1 *(cont'd)*:

ii. **What would be the impact of the Proposed Disposal to DRB-HICOM's earnings in 2019?**

The proposed disposal will contribute positively to Group's earnings in FYE2019 as the Group will continue to recognise Alam Flora's revenue and earnings up to the completion date which is targeted in the fourth quarter of FYE2019. In addition, the Group will also be recognising the gain on disposal of Alam Flora upon the completion date.

Question 1 *(cont'd)*:

iii. **Under the Group's new five-year plan as mentioned on page 83 of the Annual Report, we note that one of the strategies of the Company is to reduce focus or consider exiting unprofitable businesses.**

Alam Flora is a profitable cash generating unit. As such, is the Proposed Disposal in line with the Group's strategy? Please comment.

Answer 1(iii):

It is part of the Group's plan to rationalise its core businesses. Given that there are limited synergistic benefits to be enjoyed between Alam Flora group and the rest of the DRB-HICOM Group, the Proposed Disposal provides an opportunity for the DRB-HICOM Group to exit the waste management business and allow it to focus on other key business activities going forward.

Question 2:

As stated on page 90 of the Annual Report, the Company also reduces its inventory significantly by rehabilitating the unsold units and offering attractive promotions and discounts. We also note that under Note 28 on page 290 of the Annual Report, Inventories for completed units of unsold properties/land increased to RM50.9 million (2017: RM38.3 million).

i. **How much was spent to rehabilitate the abovementioned units?**

ii. **How many units were rehabilitated for FYE2018?**

Answer 2(i & ii):

The Group's Property Division carried various inventories such as bungalows, semi-detached houses, link houses, apartments and industrial lands. Some of these inventories require rehabilitation works to make good for sale.

During the financial year ended 31 March 2018, 22 apartment units in Tanjung Malim, Perak and 3 bungalow units in the Klang Valley incurred rehabilitation costs totalling approximately RM155,000 and RM124,000 respectively.

Question 2 *(cont'd)*:

iii. How many of these rehabilitated units were sold during FYE2018 and how many more remain unsold?

The rehabilitation efforts coupled with attractive promotions and discounts offered were able to reduce slow moving inventories of completed units of unsold properties, of which 22 units of the Apartments were successfully sold in FYE2018; whereas the 3 Bungalows remained unsold.

Question 3:

On page 245 of the Annual Report, we note that the financing written off has increased to RM6.7 million (2017: RM1.7 million).

What is the reason for the significant increase in the amount for financing written off?

The amount provided for in FYE2018 by the banking subsidiary, Bank Muamalat Malaysia Berhad was in respect of certain financing of customers with shortfall in net recovery against the outstanding loans in accordance with the bank's impairment policy and the accounting standard, MFRS 139.

Question 4:

Please explain the reason for the huge increase in Inventories written off/down (net of write backs) amounting to RM61.6 million (2017: RM17.7 million), as shown under Note 6 on page 246 of the Annual Report.

The allowance for write-down of inventories in FYE2018 by certain automotive companies of the Group were mainly due to slow-moving and aged stocks comprising finished goods, CKD parts and certain production components that were written down to their net realisable values. This adjustment was done in line with the requirement of the accounting standard, MFRS 102 *Inventories*.

Question 5:

As reported on page 293 of the Annual Report, under Note 29(f), doubtful debts of other receivables amounting to RM177.7 million (2017: RM7.2 million) were written off.

i. **What is the nature of these doubtful debts of other receivables that were written off?**

ii. **What actions have been taken to recover the said amounts prior to writing off?**

Answer 5(i & ii):

This write-off is in respect of research and development costs incurred by PROTON on projects related to technology advancement.

Due to technical specifications and commercial requirements that could not be met, the projects were aborted. As a result, the capitalised project development costs which was previously fully impaired is no longer recoverable and hence written off in the current year. The write-off has no financial impact to the Group.

Question 6:

Under Note 55 on page 336 of the Annual Report, we note that the Company's non-banking capital commitments for 2018 were as follows:

	RM'000
Contracted for	667,921
Not contracted for	3,446,680
Total	**4,114,601**

Please provide further details and breakdown on the abovementioned non-banking capital commitments.

Answer 6:

The capital commitments as at 31 March 2018 for DRB-HICOM Group's businesses is as below:

Group Business Sector	RM'000	Main purposes
Automotive	3,368,139	Expansion of manufacturing plant at Tanjung Malim, factory enhancement, purchase of machineries and equipments, new product development including powertrain.
Services	718,735	Capital expenditure for postal, logistics and concession businesses.
Property and investment holding	27,727	Purchase of fixed assets
Total	**4,114,601**	

Question 7:

In relation to the Group's segmental reporting under Note 56 on page 340 of the Annual Report, share of results of joint ventures (net of tax) from Automotive segment recorded a loss of RM2.2 million for FYE2018 (2017: Profit RM8.1 million).

What are the reasons for the deterioration in performance?

The decline in performance was largely due to the unfavourable results of a joint venture company on account of lower motor vehicles sold and higher spending of promotional and marketing costs in FYE2018.

THANK YOU

DRB-HICOM