DRB-HICOM

Annual General Meeting

Queries & Answers for Minority Shareholder Watch Group (MSWG)

22 July 2020

Strategic & Financial Matters

Question 1:

How has COVID-19 pandemic impact the Group's automotive sector in terms of changes to the Group's plans for launches of new/enhanced models of vehicles? Are there any disruptions to the supply chain?

Answer 1:

The COVID-19 pandemic has fundamentally impacted all industries including the Automotive sector. The resulting downturn in the economy, disruptions in supply chain and weaker consumer sentiment has adversely impacted the businesses. The Malaysian Automotive Association has revised its 2020 total industry volume ("TIV") forecast downwards from TIV of 604,287 units in 2019 to 400,000 units.

Answer 1 *(cont'd)*

With the re-commencement of the Group's businesses in early May 2020, the Group will continue with the launches of new/enhanced models with emphasis on the unique selling proposition of each model. To regain the interest of the market, promotion of the Group's value-for-money products will be undertaken on digital platforms, which will be more cost-efficient.

The Government's PENJANA scheme, where sales tax is exempted for passenger vehicles until the end of December 2020 is expected to boost the overall sales performance.

Question 2:

In terms of exports, PROTON sold a total of 1,007 units overseas, aided by the successful launch of the X70 in Brunei. The company has also entered into a Licensing and Technical Assistance Agreement with ALHAJ Automotive with the objective of setting up a plant in Karachi to assemble PROTON cars for the Pakistan market (page 103 of Annual Report for Financial Period ended 31 December 2019 ("AR")).

Question 2 *(cont'd)*:

a) How many units of PROTON cars were sold to Pakistan in FP2019 and to-date?

As agreed during the inking of the partnership agreement between PROTON and ALHAJ Automotive in 2019, both organisations have set a compelling sales target to start the business in Pakistan. The initial phase will be implemented through the importation of CBU units of the Proton Saga and Proton X70. However, due to the impact of COVID-19 across the globe, the progress of the project has slowed down and both parties are currently assessing the impact.

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Question 2 *(cont'd)*:

b) **What is the status regarding the setting up of a plant in Karachi?**

The construction of the plant is on-going and installation of jigs is scheduled to take place at the end of December 2020. However, a slight delay is expected due to the COVID-19 pandemic.

Question 3:

Aerospace Division (page 113 of AR):

a) Composites Technology Research Malaysia Sdn. Bhd. ("CTRM") Composites Engineering ("CTRM CE") has submitted quotations for contracts amounting to more than USD1 million per year.

What is the probable success rate?

Answer 3(a):

The quotation submitted is for the proposed supply of satellite communication products for maritime application to the Original Equipment Manufacturer ("OEM") based in United States of America and the outcome is yet to be determined.

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Question 3 *cont'd*:

b) In terms of wind energy, CTRM was recently awarded the contract to develop vertical axis wind turbines, creating the potential for CTRM CE to venture into the manufacture of large-scale wind turbines utilising the autoclave manufacturing process, similar to structural components for aerospace.

What is the duration of the said contract and what is the estimated percentage revenue contribution to the Group, going forward?

Answer 3(b):

Wind energy is one of the long-term strategies at CTRM. We expect the business will grow and contribute to CTRM's performance within the next 3 to 5 years. However, the existing aerostructures business will remain as the key contributor to revenue for CTRM.

Question 4:

How will the COVID-19 pandemic affect the Group's capital expenditure plans for financial year ending 2020 across the Group's various business segments? What would be the estimated amount?

Answer 4:

DRB-HICOM Group set-up a Business Recovery Task Force (“BRTF”) early in the crisis, in March. The BRTF establishes a crisis management structure for the Group, focusing on the entire spectrum of business challenges and opportunities faced by the Group due to the COVID-19 crisis.

Answer 4 *(cont'd)*:

One of the focus areas is on cash and liquidity management. This includes re-prioritising capital expenditure with emphasis given to projects identified as critical. The BRTF will also undertake financial and operational risk assessment, considering a period of greater economic uncertainty as a result of the pandemic and the varied nature of the Group's businesses.

Nevertheless, the Group will continue to undertake critical capital expenditure for modernisation, expansion and replacement of assets.

Question 5:

The Group's PBT came in at RM472.5 million, reversing a loss before tax of RM46.9 million in the same period a year ago. Net profit, meanwhile, was RM439.1 million. The significant increase in profit was due to the divestment of Alam Flora as well as the improved performance of the Group's Automotive Sector (page 93 of AR).

Without Alam Flora, will the Group be able to remain profitable, going forward?

Answer 5:

The Group’s operating profit before tax for the nine-month period ended 31 December 2019 amounted to RM277.6 million, and this excludes the gain on divestment of Alam Flora Sdn. Bhd. and also the impairment loss on goodwill (which is non-operating item).

The Group’s operating financial performance will continue to be derived from its existing business activities in Automotive, Services and Property Sectors. However, the operational performance is expected to be impacted by the effects of the on-going COVID-19 pandemic crisis. The Group is taking all the necessary measures to minimise these effects.

Question 6:

Other expenses increased to RM420.7 million (FY2019: RM150.5 million) (page 134 of AR).

a) **What is the reason for the significant increase in other expenses?**

The increase is mainly due to the recognition of impairment loss on goodwill mainly in the postal and logistics subsidiary companies due to its unfavourable financial performance.

Question 6 *cont'd*:

b) **What are the major items in other expenses and the breakdown?**

Included in other expenses are mainly impairment loss on goodwill (intangible assets), allowance for expected credit losses on receivables, forex losses and research and development expenditure as disclosed in Note 6 on pages 217 to 219 of the Annual Report.

Corporate Governance Matters

Question 7:

Resolution 4 - To approve the payment of Directors' fees up to an aggregate amount of RM2,220,000.00 to the Non-Executive Directors from 23 July 2020 until the conclusion of the next Annual General Meeting.

Due to the COVID-19 pandemic, the Group will find it difficult to estimate the financial impact of the MCO and consequential economic fallout in the current financial year ending 31 December 2020 (page 124 of AR).

Question 7 *cont'd*:

Board/Board Committee	Existing Fees (per annum)		Revised Fees (per annum) (effective from 23 July 2020)	
	Chairman	Member	Chairman	Member
Board	RM140,000	RM90,000	**RM300,000**	**RM180,000**
Board Audit Committee	RM17,000	RM12,000	**RM60,000**	**RM40,000**
Board Nomination and Remuneration Committee	RM10,000	RM8,000	**RM10,000 (No Change)**	**RM8,000 (No Change)**
Board Risk & Sustainability Committee	RM10,000	RM8,000	**RM30,000**	**RM20,000**

The Group has explained that the rationale for the revision to the Group's Directors' Remuneration Framework is for the Group to formulate Directors' compensation which is comparable with its regional peers, given that it has not been revised since 2012 (page 65 of AR).

Question 7 *cont'd*:

Nevertheless, MSWG is of the view that the proposed revised fees for the Board's Chairman and Members of 100% and above from the existing fees are high considering the current pandemic environment where pay-cuts and lay-offs are widespread.

a) Is it reasonable to increase the fees for the Board's Chairman and Members by such a significant amount in such dire times?

It should be noted that the last fee review was in 2012.

Answer 7(a) *cont'd*:

Since then, the Director's role has become increasingly more significant, with changes to relevant corporate governance, guidelines and laws by regulators taking place. The fiduciary duty of Directors towards the Company requires having on board persons with adequate calibre and competency to make strategic decisions, give valuable insights and act in the best interest of all stakeholders. Increasingly complex transactions also require the expertise of the Directors, to take a closer look at how capital allocation decisions are made.

The proposed fee review is also comparable with the prevalent market and regional peers.

Question 7 *cont'd*:

b) Will not such significant increase in Directors fees affect the Group's performance adversely, going forward?
(Note: the Group's net loss for the financial period from continuing operations was RM137.0 million (FY2019: Net loss from continuing operations of RM26.8 million))

It should be noted that the proposed increase of total directors' fees amounts to RM 2.2 million (which includes one additional director) in 2020 compared with RM 1.2 million (annualized) in 2019 and this translates to about RM 83,000 per month.

Answer 7(b) *cont'd*:

Further, it must be noted that, as an investment holding company, the Group registered a net profit of RM 439.1 million for the financial period December 2019 and a net profit of RM 51.2 million for the financial year March 2019.

Hence, the increase in Directors' fees would not affect the Group's performance adversely as the Board is expected to protect the interests of investors, through its oversight role, by guiding the Management to invest the Company's resources in the highest return alternatives.

Question 7 *cont'd*:

c) Given such a challenging economic condition, does the Group have any cost optimisation plans such as staff-related cost cutting measures to be carried out during the financial year ending 2020 e.g. salary reduction, lay-offs?

Answer 7(c):

The Group has deployed sustainable staff-related cost reduction programs such as deferring new recruitment and short-term incentives. Adjustments were made to work arrangements such as reassignment of excess workforce to training and skills upgrading.

This would equip employees with better skills and knowledge, ultimately increasing productivity to enable our companies to meet business demands when economic growth recovers. Direct adjustments to salary or lay-offs may only be applicable to companies that are severely affected due to COVID-19 crisis.

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THANK YOU