DRB-HICOM

34th ANNUAL GENERAL MEETING

28 MAY 2024

QUESTIONS & ANSWERS FOR MINORITY SHAREHOLDER WATCH GROUP (MSWG)

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Operational and Financial Matters

Question 1 :

The Malaysia Automotive Association anticipates a TIV of 740,000 units in 2024, a 7.47% reduction from 2023. It attributes this to a slowdown in consumer spending due to concerns over targeted subsidy rationalisation, high cost of living, proposed High Value Goods Tax, and higher service tax rate for selected services including vehicle repairs and maintenance (page 41 of AR2023)

a) To-date, to what extent has the Group experience slowdown in consumer demand for the Group's vehicles?

Answer (1a) :

Despite a lower projection for TIV 2024, the Malaysian Automotive Association ("MAA") reported an 8% increase in new vehicle sales, with 260,236 units in the first four months of 2024, from 240,417 units during the same period last year.

DRB-HICOM Group also recorded higher sales with 85,646 units sold, up from 84,418 vehicles in the same period in 2023. However, motor vehicle demand in Malaysia is expected to moderate in the second half of 2024 due to potential challenges, as mentioned above.

Question (1b) :

PROTON's partnership with smart Automobile Co., Ltd. to distribute the smart EV models in Malaysia and Thailand (page 20 of AR2023), how many smart EV does the Group target to distribute in FY2024?

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Answer (1b) :

The sales target for smart EV in FY2024 is 1,000 units.

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Question 2 :

Pos Aviation Sdn. Bhd. ("Pos Aviation") secured contract with Malaysia Airlines to provide in-flight catering for the Australia-New Zealand route (page 59 of AR2023)

a) What is the value and duration of the contract to provide the said in-flight catering?

Answer (2a) :

The contract with Malaysia Airlines for the ANZ sector is signed for two years, with a contract value of approximately RM40 million.

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Question (2b) :

What are the Group's plans in terms of securing more contracts from Malaysia Airlines?
To what extent will Pos Aviation be able to secure more contracts from Malaysia Airlines to provide in-flight catering for other routes?

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Answer (2b) :

Pos Aviation expanded its kitchen space to increase meal handling capacity for Malaysia Airlines, which currently accounts for about 65% of its inflight catering volume. With this expansion, new equipment, and process automation, we expect to secure more contracts potentially up to 70% of our total capacity.

Question 3 :

The sustainability endeavours of World Cargo Airline Sdn. Bhd. ("WCA") is phasing out older aircrafts and bringing in more new-generation aircrafts which are up to 20% more fuel efficient with less carbon emissions (page 60 of AR2023)

a) What is the total number of older aircraft that need to be phased out, and by when?

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Answer (3a) :

WCA phased out two of its older B733 and B734 in the fourth quarter of 2023.

Question (3b) :

How many new-generation aircraft does WCA plan to bring in to replace the older aircraft? What is the total value of the new-generation aircraft?

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Answer (3b) :

WCA replaced the older aircrafts with two additional B737-800 new generation units, each valued at approximately USD 30 million.

Question (3c) :

Given that WCA is an associated company of DRB-HICOM, to what extent does the Group need to invest further in WCA to purchase new-generation aircraft?

Answer (3c) :

WCA adopts a cautious approach in the freighter market amidst challenging geopolitical tensions that might affect its operations. WCA plans to maintain its current fleet without adding new-generation aircraft. Thus, no further investment is required from the Group.

Question 4 :

Loss on fair value adjustments of investment securities, financial assets at fair value increased significantly to RM31.8 million (FY2022: RM6.3 million loss on fair value) (page 264 of AR2023)

What were the main investment securities that had contributed to the fair value loss of RM31.8 million? What are the reasons for the huge increase in loss on fair value adjustments of investment securities?

Answer (4) :

The fair value loss of RM31.8 million was primarily attributable to specific financial investments held by a banking subsidiary of the Group. The fair value adjustments were determined based on the valuations of these investments, considering their current state and the prevailing economic conditions at the financial year-end.

Question 5 :

More than RM5 million has been allocated for 2024 to mitigate flood risk. The Flood Mitigation Plan encompass adequate flood insurance coverage, flood control systems, facilities relocation and enhancement, and critical assets protection as well as training programmes dedicated for Flood Action Committees (page 127 of Sustainability Report 2023 ("SR2023")).

Climate change causes heavier rainfall leading to floods that would disrupt production and business operations. Given that the Group had in FY2021 encountered flooding issues in flood-prone areas where the Group's manufacturing facilities reside, how has climate change effect impacted the Group's insurance premiums?

Answer (5) :

The flood incident in 2021 significantly impacted the Group's operations, particularly in the automotive manufacturing sector. As a result, two companies estimated a 40% increase in insurance premiums.

Question 6 :

The Group's emission reduction target is to achieve a 35% reduction of Scope 1 and 2 carbon emissions by 2035 from the base year of 2018 and work towards achieving net-zero in 2050. In 2023, the Group's GHG emissions for Scope 1 and Scope 2 recorded a decrease of 5,878 tonnes CO_2e or 2% compared to 2018 (page 129 of SR2023).

Given that the Group took 6 years to reduce its GHG emissions by 2%, is the target of reducing Scope 1 and 2 emissions by 35% by 2035 realistic and achievable?

Answer (6) :

In 2018, the Group set a goal to reduce Scope 1 and Scope 2 emissions by 35% by 2035. However, the COVID-19 pandemic from 2020 to 2022 severely affected the programme's implementation.

Key initiatives have been reactivated post-pandemic, and the Group remains focused on accelerating their execution to achieve the emission reduction targets within the timeline.

Question 7 :

Practice 5.9 of the Malaysian Code of Corporate Governance ("MCCG") states that the board should comprise at least 30% women directors. For FY2023, only one woman director out of six was on the Board, representing 16.6% of the total number of Directors.

On page 45 of the Corporate Governance Report 2023 ("CGR2023"), it was stated that the Board supports the MCCG's best practice of having 30% women's participation on boards of public companies in Malaysia and will consider the appointment of additional women directors based on suitability and merit, whenever a vacancy arises.

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Question 7 *(continued)* :

Apart from complying with the minimum requirement of Paragraph 15.02 of the MMLR of Bursa Securities i.e., having at least one female director on board, what steps are being taken to achieve a 30% women representation on the board as stipulated by the MCCG? What specific plans and strategies does the Board have in place to work towards this goal?

Answer (7) :

The Board and Board Nomination and Remuneration Committee (BNRC) supports the MCCG's best practice of having a 30% representation of women on the Board, i.e., by consistently considering gender diversity in the identification, assessment, and selection of potential Board members, and during the annual review of the Board composition.

Based on the annual review, the Board noted that the current Board composition has a good mix of industry-specific knowledge that enables the Board to fulfil its oversight responsibilities and provide effective leadership.

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Answer (7) *(continued)* :

The Board endorses gender diversity across all organisational levels which include the Senior Management and the entire workforce. For FY2023, the female representation at Management level was 33%. As part of the ongoing journey towards continuous improvement on gender diversity, the Board will consider the appointment of additional suitable female Director(s), whenever a vacancy arises.

Question 8 :

In December 2023, the Board appointed an external independent consultant, namely Boardroom Corporate Services Sdn Bhd (“Boardroom”), to conduct the Board Effectiveness Assessment (“BEA”) exercise for the financial year ended 31 December 2023 (“BEA FY2023”). (page 47 of CGR2023)

In the BEA Report, Boardroom highlighted its recommendations and areas of improvement, which include, amongst others, enhancement in sustainability reporting, Board Charter, Groupwide Governance Framework and Board skillsets and continuous professional development. (page 48 of CGR2023)

a) What steps have the Board taken to address Boardroom’s recommendations and areas for improvement?

Answer (8a) :

Based on the results of the BEA FY2023 conducted by Boardroom, the Board and BNRC noted Boardroom's recommendations and areas of improvement, which the Board, together with the Management had undertaken the following:

- **Sustainability Framework and Policy is now in place.**
- **The Board Charter of the Company would be reviewed to include the enhancement, where applicable.**
- **Board Development Programmes on Environmental, Social & Governance ("ESG") had been identified for Directors to enable greater understanding across the ESG spectrum, including climate change.**

Question (8b) :

The Board began linking pertinent ESG performance indicators to Senior Management remuneration in 2023 (page 123 of AR2023). To further align with the Group's Sustainability Commitments and targets, a KPI on the composition of renewable energy in the total electricity mix was introduced and implemented across the Group in FY2023 (page 29 of CGR2023).

i. **In relation to quantitative environmental, social, and governance ("ESG") KPIs on the evaluation of Senior Management in FY2023, how did they perform in relation to these KPIs?**

Answer (8b) :

i. **For FY2023, the ESG KPI for the Renewable Energy mix is on track at 9%, progressing towards the target of 20% by 2035.**

Question (8b) :

ii. **What was the weightage of the ESG KPIs (by percentage) vis-à-vis operational and financial metrics in the overall performance evaluation of the Board and Senior Management?**

Answer (8b) :

ii. At the Senior Management level, the ESG KPI weightage is 10% of the overall Corporate KPI.

Question 9 :

During FY2023, a total cost of RM4.4 million (FY2022: RM3.4 million) was incurred as part of the resource allocation for the internal audit function, covering mainly manpower and incidental costs, such as travelling and training. As of 31 December 2023, the total staff strength of the Group Internal Audit & Integrity Division ("GIAID") stood at 17 (page 233 of AR2023)

Despite the same headcount of 17 with FY2022 and given that the Group executed a total of 119 audits, lower than 132 audits executed in FY2022, why did the Group incur substantially higher total costs for the internal audit function in FY2023? Which expenses recorded the greatest increase y-o-y?

Answer (9) :

In 2023, the scope of audit review had expanded to cover broader operations, various complexity levels, and technical input to address anticipated higher operational risk and statutory compliance. This resulted in a longer audit period. Additionally, the focus expanded nationwide, including Sabah and Sarawak. Unlike during COVID-19 pandemic years, where virtual meetings took place and areas of coverage were limited within Klang Valley only.

THANK YOU

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