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Delivering Sustainable Futures

10 November 2022

MINORITY SHAREHOLDERS WATCH GROUP
Level 23, Unit 23-2
Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Attention: Mr Devanesan Evanson
Chief Executive Officer

Dear Sirs,

Sixteenth Annual General Meeting ("16th AGM") of Sime Darby Berhad to be held on 15 November 2022

We thank you for your letter dated 7 November 2022 informing Sime Darby Berhad ("SDB" or "Company") of the issues that the Minority Shareholders Watch Group ("MSWG") intends to raise at the 16th AGM of the Company to be held on Tuesday, 15 November 2022 at 10.00 a.m.

As requested, we enclose SDB's response to the matters raised by MSWG in the letter.

Thank you.

Yours faithfully,
SIME DARBY BERHAD

NOOR ZITA HASSAN
Group Secretary

1. **In relation to Sime Darby's Motors Division, the Malaysian operations which benefitted from the extended sales tax exemption, had an outstanding year. (page 22 of AR2022)**

   Given that the sales tax holiday has ended, to-date has all the backlog of orders for cars ordered before 30 June 2022 been delivered? How many remain outstanding?

   The Sales & Service Tax (SST) exemption for the purchase of new vehicles ended on 30 June 2022. However, the Government has extended the tax exemption to buyers who have ordered their vehicles by 30 June 2022 and are able to take delivery by 31 March 2023.

   There was a large increase in orders leading up to 30 June 2022, and due to the extension, the strong new car order bank will continue to support our performance in FY2023. However, we believe that volumes will eventually normalize and reach an equilibrium.

   Our Motors operations are still clearing the backlog of accumulated orders placed before the expiry of the SST exemption.

2. **The Group have set up a new business unit, KINETA which supplies and installs EV chargers and EV charging solutions in Malaysia and Hong Kong. (page 19 of AR2022)**

   a. **To-date, how many EV chargers and EV charging solutions have the Group provided in Malaysia and Hong Kong?**

   b. **How many EV chargers does the Group plan to install in Malaysia and Hong Kong for financial year ending 2023?**

      We are seeing growth in EV sales in all our markets. From selling almost zero EVs two years ago, EVs now make up about 9% of total vehicles sold by the Group, with the majority being in Chinese Mainland & Hong Kong.

      Being the dealer for over 30 marques across Asia Pacific, we are fortunate to have a wide array of EV offerings from our automotive principals (BMW, Porsche, Hyundai, MINI) giving us an immediate entry into the EV space. We are also targeting new Chinese EV brands to broaden our offering such as BYD.

      In order to participate along the value chain and to further capitalise on this dynamic trend, we established our KINETA unit to supply, install and maintain EV charging equipment for the region. KINETA has partnered with Tenaga Nasional Berhad (TNB) to install and maintain EV chargers along the North South Highway. At the moment, the numbers for KINETA are still relatively small in relation to the Group, but we are confident they will grow with the trend.

3. **Inventory write-down and provision (net) increased to RM73 million (2021: RM44 million). (page 185 of AR2022)**

   a. **What comprises the inventory that has been written down? How much of the written down inventory is still saleable?**

      The Group's inventories of about RM9.2 billion consist mainly of motor vehicles, industrial equipment and parts. The total net inventory write-down and provision for FY2022 of RM73 million was about 0.8% of the carrying value of the inventories as at 30 June 2022.

Our policy is to carry inventories at the lower of cost or net realisable value. Demonstration units for our Motors business often constitute the majority of the total inventory provisions as it is our normal policy to write them down quickly. Nevertheless, demonstration units are readily available for sale and are generally sold within a year.

b. Given that the Group inventories have increased to RM9.2 billion (2021: RM8.3 billion) (page 180 of AR2022), what is the probability of higher inventory write-down and provision in financial year ending 2023?

The Group has made strategic inventory purchases in advance of anticipated cost increases which has resulted in a higher ending balance of RM9.2 billion. Management continues to closely monitor inventory levels to mitigate the risk of write downs.

4. The implementation of the new amendments to the Employment Act 1955, which include the reduction of weekly working hours in Malaysia from 48 to 45 hours and raising the monthly salary threshold for employees' entitlement to overtime benefits from RM2,000 to RM4,000, have been postponed to 1 January 2023.

To what extent do the amendments impact the Group financially when the new amendments are enforced?

Being a large trading corporation, our human capital is the most important asset as they bring the commitment and dynamism to sell our products and services and engage with customers effectively. The proposed amendments to Malaysia's Employment Act are to allow employees more flexibility in their working arrangements and provide greater protection against all types of harassment and discrimination, among others.

In relation to the working hours, there is no impact, as the Group is already practicing weekly working hours of 45 hours or lesser. In terms of overtime entitlement, based on our preliminary assessment it will not have a material impact to our financial performance.

5. In FY2022, total cost incurred for the internal audit function at the Group was RM13.9 million (FY2021: RM16.5 million). (page 146 of AR2022)

What is the reason for the decrease in internal audit cost by RM2.6 million?

The internal audit function has an important role in the Group to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively. We have strong teams in Australasia, China, ASEAN and Information Technology, undertaking this function reflecting the scale and breadth of our operations.

The internal audit cost decreased in FY2022 due to cost management and reduced travel expenses. In addition, in FY2021, our internal audit function also incurred a one-off expenditure for the implementation of a new Audit Management Solution, resulting in higher expenses for that year.

6. **Sime Darby has departed from adopting Practice 5.9 of the Malaysian Code on Corporate Governance (MCCG), which encourages a board to comprise at least 30% of women directors.**

   Currently, Sime Darby's Board comprises twelve directors, out of whom three are female directors, representing 25% female representation at the Board level. The Company newly appointed a male Independent Non-Executive Director on 8 June 2022, to the Board (page 21 of AR2022).

   Did the Nomination & Remuneration Committee consider any female candidate as potential director, prior to appointing a male director?

   The Board acknowledges the importance of gender diversity in the boardroom. However, the Board believes that a holistic view of diversity including diversity in professional and industry experience, age, ethnic backgrounds, personal attributes, understanding of different geographical regions as well as diversity in perspectives and skills should also be considered.

   The Nomination & Remuneration Committee of Sime Darby considered both male and female candidates for appointment as Directors to the Board. Its primary focus remains identifying the best candidate as a Director of Sime Darby.