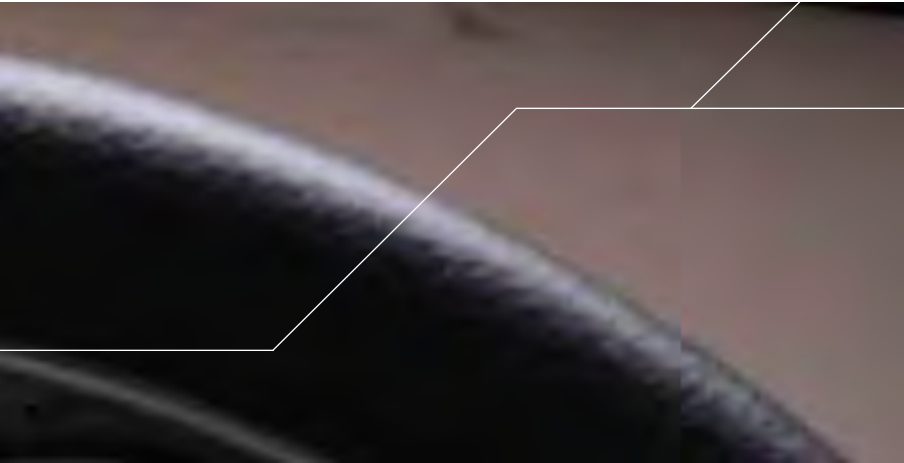




# Corporate PROFILE

PROTON was established **on 7 May 1983**

as a private limited company under the name Perusahaan Otomobil Nasional Sdn. Bhd. ("PONSB") and was subsequently listed on the Main Board of the then Kuala Lumpur Stock Exchange (now Bursa Malaysia Securities Berhad) on **26 March 1992** as Perusahaan Otomobil Nasional Berhad ("PONB"). PROTON Holdings Berhad ("PHB") which was incorporated on 28 July 2003 assumed the listing status of PONB on **16 April 2004** pursuant to a Scheme of Arrangement under Section 176 of the Companies Act 1965.



PROTON has three primary national policy objectives:

- To spearhead the development of component manufacturing industries,
- To acquire and upgrade technology and industrial skills within the automotive manufacturing industry, and
- To strengthen the international competitiveness of Malaysia's industrial capability.

PROTON commands a substantial share of the domestic market for passenger cars and over the years has been building up distribution networks in key market centres across these four regions:

- United Kingdom,
- The Middle East,
- South-East Asia, and
- Australasia.

The business of the PROTON Group has been expanded to include engineering consultancy, manufacturing, distribution, financial services and property investments. With a turnover of almost RM8 billion in financial year 2005/2006, PROTON Group is one of the largest companies listed on Bursa Malaysia Securities Berhad.

PROTON Group designs and produces cars for diverse consumer preferences. The portfolio of PROTON models includes the family sedan Waja, the stylish Gen.2, the

versatile Arena/Jumbuck, the fun-to-drive Savvy and the desirable sporty Satria Neo. PROTON Group's portfolio also includes the world-renown sports cars Lotus Elise, Lotus Esprit and the recently launched Lotus Europa. These cars are manufactured in Malaysia and the United Kingdom.

PROTON Group conducts research in its centres in the United Kingdom and Malaysia for new technologies with the ultimate aim of putting these innovations into production through partnership with Tier One Suppliers of OEM customers. A number of these patents have been licensed to leading car manufacturers.

Currently, PROTON Group has almost 11,000 employees who are involved in a spectrum of business ranging from research, design, development, testing, stamping, casting, machining and assembly to marketing, distribution and after-sales activities.

Strong customer-orientation and competitively-priced products are the foundation of PROTON's business and are essential to the group's success. PROTON aims to maintain market leadership by continuing to develop innovative products and through satisfying its customers in a better and more profitable way than its competitors.

# Awards & Recognition



## 2006

- Reader's Digest Trusted Brand 2006 – Gold Award for Car Category.
- Nanyang Siang Pau's '2006 Chinese New Year Greeting Advertisement' Award – Full Color Category – 5th Runner Up.

## 2005

- Reader's Digest Super Brand 2005 – Gold Award for Car Category.
- Merdeka Millennium Endurance Race 2005 – 1st place Overall and Class 'O' Winner.
- Malaysian Rally Championship 2005 – Overall class Winner P10 Category.

## 2004

- Malaysia Best Brand Award.
- National Creativity & Innovation Award 2004.
- \*Proton WAJA – 4.5 stars out of 5 star rating for being the Most Economical and Greenest Sedan in Australia.

## 2003

- Industry Excellence Award 2003, Quality management category III.
- Industry Excellence Award 2003.
- Best Landscape Competition (First Place – Factory Category).

## 2002

- Best Landscape Competition (Second Place – Factory Category).
- Appreciation Award for Contribution to the development of Malaysian Motorsports for 2002.
- KPMG/The Edge Shareholder Value Award 2002 Sectoral Winner – Industrial Market. The award measured economic profit as a percentage of invested capital.
- Highest Increase in Turnover Award among companies listed on the Kuala Lumpur Stock Exchange for financial year 2002-2003.
- Motor vehicles and transport equipment sector leader award among the top 1,000 Malaysian companies.

As testimony to our efforts in leading the Malaysian automotive industry as well as making inroads in branding and motor sports, PROTON received the following awards and accolades from various organisations:



- Highest Increase in Net Profit Award among companies listed on the Kuala Lumpur Stock Exchange for financial year 2002-2003.

### 2001

- Certificate of Merit for 2001 NACRA Award.
- Appreciation Award for sponsoring 'Le Tour de Langkawi' 2001 event.
- Superbrand Award for Automotive sector for year 2001.

### 1999

- Satria GTI - Wheels Magazine 'Best Hot Hatch Buy' Year 1999.

**PROTON was also appreciated for its contributions to various national causes and its support of community events by the following organisations:**

### 2006

- Certificate of Appreciation from the Badminton Association of Malaysia for the "Badminton Melayu Malaysia Piala DYMM Sultan-Sultan ke-50" tournament.

### 2005

- Certificate of Appreciation for the production of the Kelantan Royal Project 2005 special documentary.

- Special Membership Certificate to commemorate the Malaysian Industry-Government Group for High Technology's 10th Anniversary.
- Certificate of Appreciation in conjunction with QDay by the Ministry of Cooperation and Entrepreneur Development.
- Certificate of Appreciation for the support of the Karnival Kulim Hi-Tech Park.
- Support of the International CEOs Conference 2005 - Global issues and challenges facing Asian corporations.
- Certificate of Appreciation for the National Anti-Drug Campaign.

# Corporate Information

## BOARD OF DIRECTORS

- Dato' Mohammed Azlan bin Hashim (*Chairman*)
- Syed Zainal Abidin bin Syed Mohamed Tahir (*appointed on 1 January 2006*)
- Lt. Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar
- Abdul Jabbar bin Abdul Majid
- Badrul Feisal bin Abdul Rahim
- Mohammad Zainal bin Shaari
- Abdul Kadir bin Md Kassim
- Dato' Ahmad bin Haji Hashim (*appointed on 26 October 2005*)
- Dato' Haji Abd. Rahim bin Haji Abdul (*resigned w.e.f. 2 September 2005*)
- Tengku Tan Sri Dr. Mahaleel bin Tengku Ariff (*retired w.e.f. 30 September 2005*)
- Datuk Kisai bin Rahmat (*appointed on 1 January 2006*)  
(*resigned w.e.f. 31 July 2006*)

## BOARD AUDIT COMMITTEE

- Abdul Jabbar bin Abdul Majid  
– *Chairman*
- Mohammad Zainal bin Shaari
- Abdul Kadir bin Md Kassim

## BOARD NOMINATION COMMITTEE

- Dato' Mohammed Azlan bin Hashim  
– *Chairman*
- Lt. Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar
- Abdul Jabbar bin Abdul Majid
- Badrul Feisal bin Abdul Rahim
- Abdul Kadir bin Md Kassim

## BOARD REMUNERATION COMMITTEE

- Badrul Feisal bin Abdul Rahim  
– *Chairman*
- Abdul Jabbar bin Abdul Majid
- Ahmad Tajuddin bin Abdul Carrim  
(*appointed on 29 August 2005*)
- Md Ali bin Md Dewal  
(*appointed on 29 August 2005*)
- Mohammad Zainal bin Shaari  
(*resigned w.e.f. 29 August 2005*)
- Lt. Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar  
(*resigned w.e.f. 29 August 2005*)

## BOARD RISK MANAGEMENT COMMITTEE

- Abdul Kadir bin Md Kassim  
– *Chairman*
- Md Ali bin Md Dewal
- Badrul Feisal bin Abdul Rahim
- Datuk Tan Kim Leong  
(*appointed on 29 August 2005*)
- Dato' Michael Lim Heen Peok  
(*appointed on 29 August 2005*)
- Abdul Jabbar bin Abdul Majid  
(*resigned w.e.f. 29 August 2005*)
- Lt. Gen (R) Dato' Seri Mohamed Daud bin Abu Bakar  
(*resigned w.e.f. 29 August 2005*)

## BOARD EXECUTIVE COMMITTEE

- (*Established on 1 January 2006*)  
(*Disbanded w.e.f. 30 June 2006*)
- Dato' Mohammed Azlan bin Hashim  
– *Chairman*
  - Syed Zainal Abidin bin Syed Mohamed Tahir
  - Datuk Kisai bin Rahmat
  - Badrul Feisal bin Abdul Rahim

## AUDITORS

**PricewaterhouseCoopers**  
(Chartered Accountants)  
11th Floor, Wisma Sime Darby  
Jalan Raja Laut, P.O. Box 10192  
50706 Kuala Lumpur  
Tel : 03-2693 1077  
Fax : 03-2693 0997

## REGISTERED OFFICE

**HICOM Industrial Estate**  
Batu Tiga  
40000 Shah Alam  
Tel : 03-8026 9741  
Fax : 03-8026 9744

## REGISTRAR

**Tenaga Koperat Sdn. Bhd.**  
20th Floor, Plaza Permata  
Jalan Kampar, Off Jalan Tun Razak  
50400 Kuala Lumpur  
Tel : 03-4041 6522  
Fax : 03-4042 6352

## STOCK EXCHANGE LISTING

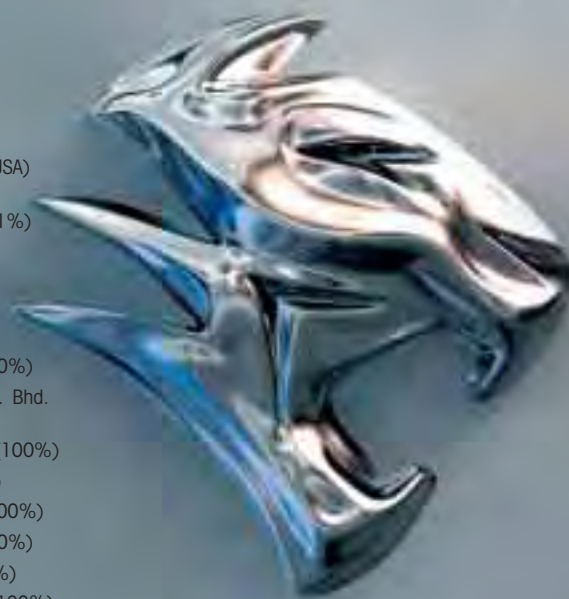
Main Board of  
Bursa Malaysia Securities Berhad

## COMPANY SECRETARY

Mohd Nizamuddin bin Mokhtar  
(LS 006128)

### ENGINEERING SERVICES DIVISION

- ◆ LOTUS ADVANCE TECHNOLOGIES SDN. BHD. (100%)
  - PROTON ENGINEERING RESEARCH TECHNOLOGY SDN. BHD. (100%)
    - \* Marco Acquisition Corporation (USA) (100%)
  - MIYAZU (MALAYSIA) SDN. BHD. (51%)
  - LOTUS GROUP INTERNATIONAL LIMITED (100%)
    - \* Group Lotus Plc. (100%)
      - Lotus Cars Ltd. (100%)
        - Lotus Engineering Ltd. (100%)
        - Lotus Engineering (M) Sdn. Bhd. (100%)
      - Lotus Body Engineering Ltd. (100%)
      - Lotus Motorsport Ltd. (100%)
      - Lotus Holdings Inc. (USA) (100%)
        - Lotus Engineering Inc. (100%)
        - Lotus Cars USA Inc. (100%)
      - Lotus Pension Trustees Ltd. (100%)
      - Lotus Cars Foundation (100%)
      - Lotus Finance Ltd. (49.9%)



### MANUFACTURING DIVISION

- ◆ PROTON TANJUNG MALIM SDN. BHD. (100%)
- ◆ PERUSAHAAN OTOMOBIL NASIONAL SDN. BHD. (100%)
  - PROTON AUTOMOBILES CHINA LTD. (BVI) (100%)
    - \* Goldstar PROTON Automobiles Co. Ltd (49%)
  - PT PROTON TRACOMA MOTORS (INDONESIA) (51%)
  - VINA STAR MOTORS CORPORATION (VIETNAM) (25%)

**MARKETING DIVISION**

- ◆ PROTON MARKETING SDN. BHD. (100%)
  - PROTON EDAR SDN. BHD. (100%)
    - \* Proton Edar Resources Sdn. Bhd. (100%)
    - \* Proton Edar Ventures Sdn. Bhd. (100%)
    - \* Proton Singapore Pte. Ltd. (100%)
    - \* PT Proton Edar Indonesia (95%)
    - \* Proton Commerce Sdn. Bhd. (50%)
    - \* Netstar Advanced Systems Sdn. Bhd. (40%)
  - PROTON PARTS CENTRE SDN. BHD. (55%)
  - PROTON CARS (UK) LTD. (100%)
    - \* Smith & Sons Motors Ltd. (100%)
    - \* Proton Direct Ltd. (100%)
    - \* Proton Cars (Imports) Ltd. (100%)
    - \* Proton Cars Direct Ltd. (100%)
    - \* Proton Finance Ltd. (49.99%)
  - PROTON CARS (EUROPE) LTD. (55.56%)
  - PROTON CARS AUSTRALIA PTY. LTD. (100%)
  - PROTON CARS BENELUX NV SA (BELGIUM) (100%)
  - AUTO COMPOUND AND DISTRIBUTION CENTRE SDN. BHD. (100%)
  - PROTON CORPORATION SDN. BHD. (100%)
  - LOTUS CARS ASIA PACIFIC SDN. BHD. (100%)

**PROPERTY DIVISION**

- ◆ PROTON HARTANAH SDN. BHD. (100%)
  - PROTON PROPERTIES SDN. BHD. (100%)
  - PROTON CITY DEVELOPMENT CORPORATION SDN. BHD. (40%)

**FINANCIAL DIVISION**

- ◆ PROTON CAPITAL SDN. BHD. (100%)

**INVESTEE & ASSOCIATE COMPANIES**

- ◆ EXEDY (MALAYSIA) SDN. BHD. (45%)
- ◆ PHN INDUSTRY SDN. BHD. (35%)
- ◆ ALUMINIUM ALLOY INDUSTRIES SDN. BHD. (19%)
- ◆ MARUTECH ELASTOMER INDUSTRIES SDN. BHD. (25%)
- ◆ TECHNOMEIJI RUBBER SDN. BHD. (15%)
- ◆ ARA BORGSTENA SDN. BHD. (6.67%)
- ◆ PEPS-JV SDN. BHD. (10.50%)

**OTHERS**

- ◆ YAYASAN PROTON

**DATO' MOHAMMED AZLAN BIN HASHIM***Chairman**Non-Independent Non-Executive Director**Aged 49, Malaysian*

Dato' Mohammed Azlan bin Hashim was appointed as a Director on 17 December 2004 and was re-designated as Chairman on 7 February 2005. A Chartered Accountant, he graduated with a Bachelor of Economics from Monash University, Australia. He is a member of the Institute of Chartered Accountants, Australia, Malaysian Institute of Accountants, Fellow Member of Malaysian Institute of Directors and Fellow Member of the Institute of Chartered Secretaries and Administrators.

He has extensive experience in the corporate sectors including in financial services and investments. Among others, he has served as Chief Executive/Executive Director of Bumiputra Merchant Bank Berhad, Group Managing Director of Amanah Capital Malaysia Berhad and Executive Chairman of Bursa Malaysia Securities Berhad (*formerly known as Kuala Lumpur Stock Exchange*) Group.

Dato' Azlan also served on various government bodies, including Finance Committee on Corporate Governance, the Second National Economic Consultative Council and Financial Reporting Foundation.

He is currently a Board Member of among others, Labuan Offshore Financial Services Authority, Employees Provident Fund, Khazanah Nasional Berhad, Scomi Group Bhd., D&O Ventures Berhad and Malaysian Industry-Government Group for High Technology. He was recently appointed Chairman of Universiti Darul Iman Malaysia.

Within PROTON Holdings Berhad, Dato' Azlan serves as Chairman of Board Nomination Committee and Board Disciplinary Committee.

He attended 20 out of 21 Board of Directors' Meetings held during the Financial Year. He was nominated to the Board by Khazanah Nasional Berhad and has no conflict of interest with the Company and does not have any family relationship with any director and/or major shareholder of the Company. He has had no conviction of any offences within the past ten (10) years.





**SYED ZAINAL ABIDIN BIN SYED MOHAMED TAHIR**

*Managing Director*  
Aged 44, Malaysian

Syed Zainal Abidin bin Syed Mohamed Tahir was appointed as the Managing Director of PROTON on 1 January 2006. He graduated from the University of Maryland, USA with a Bachelor of Science in Civil Engineering in 1983.

Syed Zainal Abidin began his career in 1987 as a Project Engineer with Petronas Gas Sdn. Bhd. before joining Petroliaam Nasional Berhad in 1992 as Senior Executive, Corporate Planning & International Business Development. In 1995, he joined HICOM Holdings Berhad and assumed various senior positions in the company.

In 1999, Syed Zainal Abidin joined Perodua as Senior General Manager. In 2002, he was appointed as the Executive Director of Perodua Auto Corporation Sdn. Bhd. and was later promoted as Deputy Managing Director in October 2005.

Syed Zainal Abidin also sits as a director in several subsidiary and investee/associate companies with the PROTON Group.

He has attended 4 out of 4 Board of Directors' Meetings held during the Financial Year. He has no conflict of interest with the Company and does not have any family relationship with any director and/or major shareholders of the Company. He has had no conviction of any offences within the past ten (10) years.

Lt. Gen. (R) Dato' Seri Mohamed Daud bin Abu Bakar was appointed to the Board on 12 April 2004. He graduated from the world renowned Royal Military Academy, Sandhurst; the Army Staff College, Camberley and the Royal College of Defence Studies in United Kingdom.

He served the Malaysian Army with distinction for 36 years. During his military career, he was appointed to various key command and staff appointments both in the field headquarters and in the Ministry of Defence, amongst them, Director of Army Training, Commandant of Armed Forces Staff College, Brigade Commander, Division Commander, Chief of Armed Forces Logistics and Army Corps Commander cum General officer Commanding-in-Chief responsible for command and operations in Peninsular Malaysia.

He has also served in various committees at national and international levels, including as Joint Chairman of the Regional Border Committee (with Thailand), Deputy Chairman of the Socio Economic Development Committee and Member, General Border Committee (with Thailand).

Lt. Gen. (R) Dato' Seri Mohamed Daud is currently a member of the Board Nomination Committee of the Company. He is the Chairman of Johan Ceramics Berhad and a Director of Mieco Chipboard Berhad and Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat). He is also Chairman of the Audit Committee, member of the Nomination Committee of Mieco Chipboard Berhad; member of the Nomination Committee, the Board Risk Management Committee and the Audit Examination Committee of Bank Rakyat.

He attended 19 out of 21 Board of Directors' Meetings held during the Financial Year. Save for the PROTON dealership held by his son, Lt. Gen. (R) Dato' Seri Mohamed Daud has no conflict of interest with the Company. He has no family relationship with any other director or major shareholders of the Company. He has had no conviction of any offences within the past ten (10) years.

**LT. GEN. (R) DATO' SERI MOHAMED DAUD  
BIN ABU BAKAR**

*Independent Non-Executive Director*  
Aged 70, Malaysian



Abdul Jabbar bin Abdul Majid was appointed as a Director on 12 April 2004. He is a Fellow Member of the Institute of Chartered Accountants, Australia, as well as a member of the Malaysian Institute of Accountants. He is also a member of the Executive Council of the Malaysian Institute of Certified Public Accountants (MICPA).

He started his career in 1974 as Senior Manager in the Internal Audit and Organisation Department of Bank Pertanian Malaysia. In 1977, he joined KPMG Malaysia as Manager and was admitted to partnership two years later. In 1993, he was promoted to Deputy Senior Partner and was made Senior Partner in 1995, a position he held until his retirement in 2000. He joined Malaysia Derivatives Exchange Berhad in 2001 and retired as Executive Chairman on 28 February 2004. He was a past president of MICPA. He is an Adjunct Professor of the Faculty of Economics and Accounting of the International Islamic University. He was a member of the Senate of the Open University Malaysia Board.

Abdul Jabbar is currently the Chairman of the Board Audit Committee and a member of Board Nomination and Board Remuneration Committees of the Company. He is also a member of Board Disciplinary Committee. Besides PROTON Holdings Berhad, he is an Independent Non-Executive Director of Malakoff Berhad and Tradewinds Corporation Berhad and also the Chairman of the Audit Committee of Tradewinds Corporation Berhad and Malakoff Berhad. He is also a Director of Opcom Holdings Berhad and Bank Muamalat Malaysia Berhad.

Abdul Jabbar attended 15 out of 21 Board of Directors' Meetings held during the Financial Year. He has no conflict of interest with the Company and has no family relationships with any other director or major shareholders of the Company. He has had no conviction of any offences within the past ten (10) years.



**ABDUL JABBAR BIN ABDUL MAJID**

*Independent Non-Executive Director*

Aged 61, Malaysian

**BADRUL FEISAL BIN ABDUL RAHIM**

*Non-Independent Non-Executive Director*  
Aged 37, Malaysian

Badrul Feisal bin Abdul Rahim was appointed to the Board on 12 April 2004. He holds an American Associate Degree in Accountancy (AAD) and also a Bachelor of Science in Accountancy from University of Missouri, Columbia, USA in 1994.

He started his career with Arthur Andersen & Co as an intern and thereafter held the posts of Senior Officer, Internal Audit of United Overseas Bank, Kuala Lumpur; Manager, Investment Department of Malaysian Technology Development Corporation Sdn. Bhd. and Executive Director of MTDC Private Equity Management Sdn. Bhd. He joined Khazanah Nasional Berhad in February 2001 as Senior Manager and is now a Senior Vice President, Investments.

Badrul Feisal is currently the Chairman of the Board Remuneration Committee and a member of the Board Nomination and Board Risk Management Committees of the Company.

Badrul Feisal attended 19 out of 21 Board of Directors' Meetings held during the Financial Year. He was nominated to the Board of the Company by Khazanah Nasional Berhad and has no conflict of interest with the Company and has no family relationships with any other director or major shareholders of the Company. He has had no conviction of any offences within the past ten (10) years.



**MOHAMMAD ZAINAL BIN SHAARI***Non-Independent Non-Executive Director*

Aged 43, Malaysian



Mohammad Zainal bin Shaari was appointed as a Director on 17 December 2004. He is currently the Executive Director/Chief Operating Officer at Khazanah Nasional Berhad ("Khazanah"). He spent 18 years in the public accounting profession and has worked in the United Kingdom, USA and Malaysia. In 1997 he was made a partner in Price Waterhouse (now PricewaterhouseCoopers). In 2002 he left PricewaterhouseCoopers and joined BinaFikir Sdn. Bhd. in 2003.

Mohammad Zainal is a member of the Board Audit Committee of the Company.

He is a Fellow of the Institute of Chartered Accountants in England & Wales and a fellow of the Association of Chartered Certified Accountants (UK), as well as a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Mohammad Zainal has attended all Board of Directors' Meetings held during the Financial Year. He is a nominee director for Khazanah Nasional Berhad and has no conflict of interest with the Company and does not have any family relationships with any director and/or major shareholder of the Company.



Abdul Kadir bin Md Kassim was appointed to the Board of PROTON Holdings Berhad ("the Company") on 10 March 2005. Kadir serves as the Chairman of the Board Risk Management Committee. He is also a member of the Board Audit Committee, Board Nomination Committee and Board Disciplinary Committee of the Company.

Kadir holds a Bachelor of Laws Degree from University of Singapore. He served in the Malaysian Administrative and Diplomatic Service and in the Judicial and Legal Service between 1966 and 1973, holding various positions. He is currently the managing partner of Messrs Kadir, Andri & Partners. He is also a chairman of Ho Hup Construction Company Berhad and a director of United Engineers (Malaysia) Berhad, UEM World Berhad, Suria Capital Holdings Berhad, TIME dotCom Berhad, and a few private companies, including being chairman of the Committee of Labuan International Financial Exchange.

Abdul Kadir has attended all Board of Directors' Meetings held during the Financial Year. He has no conflict of interest with the Company and does not have any family relationship with any director and/or major shareholders of the Company. He has had no conviction of any offences within the past ten (10) years.

**ABDUL KADIR BIN MD KASSIM**

*Independent Non-Executive Director*

Aged 66, Malaysian



Dato' Ahmad bin Haji Hashim was appointed Director of PROTON on 26 October 2005. He graduated from the University of Malaya with a Bachelor of Economics (Hons) in 1974 and obtained his Master in Business Administration from City University, Washington State, USA in 1983. He has attended the Oxford Advanced Management Programme, University of Oxford, United Kingdom conducted in 2004 and also attended Leaders in Development: Managing Political and Economic Change, Harvard University, USA conducted in 2006.

Ahmad began his career in 1974, as an Assistant Secretary, Implementation and Coordination Unit, in the Prime Minister's Department and has served numerous Ministries including the Ministry of Finance between 1977 and 1984, holding various positions, before joining the Ministry of International Trade and Industry as the Principal Assistant Secretary in 1985. In 1992, he joined the Foreign Investment Committee, EPU, Prime Minister's Department as Principal Assistant Secretary. In 1996, Ahmad was appointed as Deputy Secretary, Economic and International Division, Treasury in the Ministry of Finance (MoF). He was later appointed as Secretary in the Loan Management and Financial Policy Division, Treasury, MoF in 2000. He served in the Ministry of Health as Deputy Secretary General (Finance) in 2003 until he assumed his present position as the Deputy Secretary General (Operation), Treasury, MoF in September 2005. Ahmad has previously held directorships and memberships in several organisations between 1999 to 2004, such as Institut Jantung Negara, Islamic Development Bank in Jeddah, Bank Simpanan Nasional, Lembaga Tabung Haji, Perbadanan Labuan, Employees Provident Fund, Johor Corporation, Malaysian Timber Industry Board, Klang Port Management Sdn. Bhd. and Penang Regional Development Authority.

Throughout his illustrious career with the Malaysian civil service, he has also represented Malaysia in APEC Economic Committee, APEC Finance Ministers/Leaders meetings, Islamic Development Bank Board of Governors meetings, Commonwealth Finance Ministers meetings, Asia-Europe (ASEM) Leaders meeting, WTO meetings, among others.

Ahmad is also a Director of Telekom Malaysia Berhad and Keretapi Tanah Melayu Berhad.

He has attended 6 out of 8 Board of Directors' Meetings held during the Financial Year. He has no conflict of interest with the Company and does not have any family relationship with any director and/or major shareholders of the Company. He has had no conviction of any offences within the past ten (10) years.



**DATO' AHMAD BIN HAJI HASHIM**

*Director*

*Non-Independent Non-Executive Director*

*Aged 54, Malaysian*

# Senior Management



**Syed Zainal  
Abidin bin Syed  
Mohamed Tahir**  
*Managing Director*



**Datuk  
Kamarulzaman  
bin Darus**  
*Director,  
Manufacturing*



**Datuk Maruan  
bin Mohd. Said**  
*Director,  
Domestic Markets*



**Razif bin Ahmad**  
*Director,  
Procurement*



**Fauzi bin  
Che Rus**  
*Director,  
Human Resource*



**Abdul Wahab  
Mohamed Khalid**  
*Head,  
Engineering*



**Ahmad Tiffi  
bin Dato'  
Mohd. Talha**  
*Head,  
Exports Markets*



**Tan Chun Weng**  
Head,  
Group Finance



**Mohd.  
Nizamuddin  
Mokhtar**  
Head,  
Group Secretarial  
& Compliance



**Low Pheng**  
Head,  
Group  
Internal Audit



**Dato'  
Tony Chan  
Kok Chuen**  
Head,  
Quality  
Management



**Michelle  
Kytne Lim**  
Head,  
Group Legal



**Andy Khoo  
Boo Teik**  
Chief Information  
Officer

## Key Personnel A b r o a d



**Michael J. Kimberley**  
Chief Executive Officer (Acting)  
Group Lotus Plc.



**Brian Collier**  
Managing Director  
Proton Cars (UK) Ltd.



**John Startari**  
Managing Director  
Proton Cars (Australia) Pty. Ltd.



**Robert Braner**  
Chief Executive Officer  
Lotus Cars, USA



**Moses Tan**  
Managing Director  
Proton Singapore Pte. Ltd.



**Dwi Sasetya**  
Director  
P.T. Proton Edar Indonesia



## **SPEED**

The attitude of being able to do everything and anything with purpose.





# Chairman's Statement



DATO' MOHAMMED AZLAN BIN HASHIM  
CHAIRMAN

## On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of the PROTON Group and Company for the financial year ended 31 March 2006.

### INDUSTRY OVERVIEW

In the financial period under review, the Malaysian auto industry continued to experience significant changes brought upon by a more liberalised operating environment and challenging market conditions. The year was marked by aggressive marketing efforts by almost all automotive manufacturers and distributors with the rapid introduction of new vehicles and very competitive promotional campaigns. Higher petrol prices and increased cost of raw materials resulting in lower profit margins, also posed a challenge. As a result of these extremely competitive conditions and rising prices at the pump, the domestic market saw a shift in favour of cars with smaller engine displacement and relatively cheaper people-movers.

Total vehicle industry volume rose by 13% to 551,052 units in 2005, with total sales for passenger cars rising by 5.3% to 400,835 units. The industry was relatively firm throughout 2005 particularly for commercial vehicles, including MPV and 4X4, which saw sales increasing by 40.3%. However, sales softened during the first half of 2006. In the January-June

2006 period, the total industry volume of vehicles sold was at 248,407 units compared with 261,111 in the equivalent period last year. Passenger cars, which make up 74% of the industry, saw 184,725 units sold, against 199,554 units previously.

This recent decline has been attributed to a number of factors, including the rise in fuel prices, tighter credit policies leading to less loans being approved as well as the fall in used car values which have affected trade-ins. It is expected that the market will continue to remain "soft" until the end of 2006.

### FINANCIAL PERFORMANCE

Given the industry scenarios described, characterised by increased market competition and a dearth of products in the growing market segments, PROTON's domestic sales volume for the financial period under review declined by 11.1% to 166,968 units in comparison to 187,800 units in the previous financial year. PROTON also saw its domestic market share decline to 40% in 2005 in comparison to the 44% market share recorded in 2004.

*“The Malaysian auto industry continued to experience significant changes brought upon by a more liberalised operating environment and challenging market conditions”*

Although exports to Australia and the United Kingdom increased by 49.8% and 16% respectively for the financial year, total export sales for the period declined 7% to 12,765 units.

With the reduction in sales, PROTON's financial performance for the year in review also recorded a decline. Group revenue decreased by 8% to RM7,796.9 million compared to RM8,483.3 million in the preceding financial year. Group profit after tax however, decreased by 89% to RM46.7 million from RM442.4 million (adjusted) in the preceding year.

### DIVIDENDS

In view of the performance of PROTON for the year under review, the Board of Directors recommends a final tax-exempt dividend of 5 sen a share in respect of the financial year ended 31 March 2006. This is subject to the approval of the shareholders at the forthcoming Annual General Meeting to be held on 6 September 2006.

If approved, the total dividends payable for the financial year under review would amount to 5 sen a share or a total tax-exempt dividend of RM27,460,650 as compared to 35 sen a share or a total tax-exempt dividend of RM192,224,550 in the previous financial period.

### CORPORATE DEVELOPMENTS DURING THE PERIOD UNDER REVIEW

In last year's Chairman's Statement, it was clearly stated that PROTON must be versatile and dynamic, to remain relevant and competitive. Following on from the management changes announced in July 2005, the Group has continued its comprehensive review to ensure it remains relevant and is able to compete more effectively and efficiently going forward. From this review, a number of corporate exercises had been initiated and undertaken during the year to realign the strategic direction of the company. Some of these are explained further in the following paragraphs.

### MV Augusta Motors SpA

The Group-wide review of PROTON's investments, was to determine their continued relevance and the changes, if any, that would be required to ensure the investments provided positive returns to the Group going forward. As a result of this review, Proton Capital Sdn. Bhd. (PCSB), a wholly-owned subsidiary of PROTON, made a decision to dispose of its entire interest in MV Augusta Motors SpA ("MVAM"). The Share Sale Agreement was signed on 23 December 2005 and completed on 1 March 2006.

As already publicly explained, this action was deemed necessary as there is very little synergy to be gained by the continued investment in MVAM. Furthermore, continuing to be a shareholder in this financially troubled entity, which is in a net liability position, would have put both PCSB and PROTON at great financial and reputational risk, were MVAM to fall into

bankruptcy. With the sale finalised, PROTON can now harness its resources and focus on strengthening its core businesses of automotive design, engineering, manufacturing and sales for the benefit of all its stakeholders, including its customers and shareholders.

It is unfortunate that there are a few who continue to question the disposal. But let us assure all stakeholders, PROTON has done a thorough assessment of its involvement in MVAM before its decision on this matter. PROTON now considers this matter closed.

### Governance Structures

Since July 2005, PROTON initiated the move to review its governance structures to ascertain weaknesses in the system and to determine possible actions that could be taken to remedy the situation. In addition, PROTON has also completed a review of the decision making process for investments undertaken by PROTON in the past.

*“...there is very little synergy to be gained by the continued investment in MVAM. Furthermore, continuing to be a shareholder in this financially troubled entity, which is in a net liability position, would have put both PCSB and PROTON at great financial and reputational risk...”*

*“...PROTON initiated the move to review its governance structures to ascertain weaknesses in the system...”*

Again this was to ascertain weaknesses in the process leading to these investment decisions and to identify measures to strengthen the process.

As a result of the various reviews, changes have been made to the Management Committee and Board structures of PROTON and its Group. In addition, the decision-making structures and limits of authorities, especially with respect to investments, have also been tightened to ensure better clarity to all those concerned, as to actual authority and essential information to be disclosed.

Apart from the re-organisation of domestic structures, PROTON has also undertaken changes to the governance structures of its overseas investments. This is with a view to improve and strengthen their financial discipline.

#### **Launching of new products**

During the financial year, in June 2005, PROTON launched the Savvy, a super-mini, in both manual and automated manual transmission (AMT) configurations.

The Savvy has the body strength of a car twice its size and comes with safety features surpassing those usually found in cars of similar class. To top it off, with the collaboration of Lotus Engineering, the Savvy's ride and handling is among the best in its class.

In December 2005, PROTON officially launched the Chancellor, a car developed mainly as a chauffeur driven saloon to further expand its product line-up. This model was specifically conceived to provide a higher level of comfort, luxury and quality for its passengers. This car is now expected to be the official Government car for senior members of Government, senior civil servants and other senior corporate executives.

More recently, on 16 June 2006, PROTON launched the Satria Neo as a successor to its popular Satria. This new product is representative of PROTON's joint-efforts with Lotus Engineering. As a result, the Satria Neo has the unique combination of good styling, performance and safety features unparalleled in many other cars within the same segment.

*“...the Satria Neo has the unique combination of good styling, performance and safety features unparalleled in many other cars within the same segment...”*



*Y.A.B. Dato' Seri Abdullah Haji Ahmad Badawi, Prime Minister of Malaysia, officially launched the Satria Neo at PROTON's Centre of Excellence Complex, Subang Jaya.*

### OTHER SIGNIFICANT DEVELOPMENTS DURING THE PERIOD UNDER REVIEW

Apart from the various corporate developments mentioned, there have also been other external developments during the financial year which have had an impact on PROTON's performance and its prospects going forward.

#### National Automotive Policy

The financial year in review saw the release of the National Automotive Policy (NAP), which represents a comprehensive framework of the Government's aspirations and expectations of the automotive sector. The overall objective of the NAP is to generate sustainable economic value through maximising the long-term contributions of the automotive sector to the national economy, while simultaneously benefiting the Malaysian consumer. This thrust by Government for the local industry to create economic value will entail all segments of the industry to work together. It is also essential that the industry continues to receive the full support of the Government, in its efforts to strengthen itself, in order to become fully competitive globally.

The NAP and its specific policy instruments will benefit the Malaysian automotive industry over the longer term. With this clearly outlined policy,

local manufacturers, assemblers and other industry players, including potential investors, will be able to better plan their businesses and automotive-related investments.

In the spirit of the NAP, PROTON on 24 March 2006, announced that the prices of its cars would be reduced across the board by between 2.5% to 7%, representing a reduction of between RM1,000 to RM3,000 depending on the model. This is in line with the Government's call for local manufacturers to produce cars which are more affordable.

### CONTINUING INDUSTRY CHALLENGES

In today's global automotive industry, opportunities and risks are everywhere, in emerging and mature markets alike. But while possibilities are plentiful, profitable growth is becoming more difficult to achieve, as challenges emerge from within the supply chain right through to the retail environment. Hence automotive players must conduct their business amidst this new

environment which requires them to be able to adapt to the challenges of globalisation, new regulations, higher energy prices, endure the rapid emergence of increased competition and changing customer needs.

**Globalisation** has spurred the automotive industry to introduce better quality products and concurrently strive for lower manufacturing costs. It has forced players to introduce the "World Car" strategy – a vehicle based on a single platform that can be the base for multiple products and sold in multiple regions in the world, thus leveraging on engineering, distribution, development and marketing costs and achieve the economies of scale in production.

**New regulations** that call for the harmonisation of safety regulations and emission levels with international standards, are forcing automakers to meet stringent new standards, produce cleaner vehicles and meet customer expectations for higher fuel economy, safety and performance features.

*“...National Automotive Policy (NAP), which represents a comprehensive framework of the Government's aspirations and expectations of the automotive sector..”*



**Higher energy prices** have provided the impetus to introduce better and more fuel efficient and economical vehicles. The push by well-informed consumers and environmental regulations for cleaner and more eco-friendly vehicles, has seen auto players devoting more resources towards development of concept models for hybrid cars and alternative fuel vehicles.

**The changing business landscape** means that today's automotive players have to compete with new products and adapt to new regulations while

simultaneously managing costs, capacity and inventory to remain competitive and profitable. As automakers look for greater economies of scale by introducing common platforms for multiple models and multiple markets, they are also

demanding that their suppliers too, adapt to these changes. For some time now, major OEMs have put their Tier 1 suppliers under intense and relentless cost pressures, forcing annual cost cuts. As a result, Malaysian suppliers too are now required to deliver further cost reductions, by significantly cutting costs and even consider to merge in order to achieve greater economies of scale.

**The consumer revolution** is bringing about the emergence of a customer base that has become more discerning, well-informed and demanding. Today's automakers must ultimately balance the increasingly stringent regulations with the needs of consumers who have become more spoilt for choice. These consumers look to brands they can trust, brands that are reliable, and brands that are in a position to offer them the best value for money and after sales support.

**On the domestic front**, as PROTON moves forward into its new financial year, intense competition in both the domestic and export markets is

*“Globalisation has spurred the automotive industry to introduce better quality products and concurrently strive for lower manufacturing costs”*

expected to continue to put pressure on Group sales and profitability. Tighter credit control by financial institutions coupled with increasing interest rates and the softening of the used car market will continue to dampen new car sales. Higher fuel prices and the recent increase in electricity tariffs will correspondingly increase the cost of production.

The PROTON Group recognises the immense challenges facing the industry globally and at home and is undertaking the necessary measures to adapt to this changing landscape. The Group is positioning itself to leverage upon its strengths and every opportunity that comes its way, to prepare it to rise above the challenges it may encounter. The Group seeks to assure its stakeholders that it is financially sound and has the resources, commitment and resolve to transform itself for the better and will spare no effort to improve its long-term profitability.

### STRATEGIC INITIATIVES GOING FORWARD

In light of the increased competition and liberalisation within the domestic automotive industry, rapidly changing trends and industry challenges, PROTON has to re-strategise how it should compete. It is clear that PROTON can utilise its limited resources more efficiently via strategic collaborations rather than

going it alone. PROTON does not have the luxury of time to develop the necessary range of products from scratch. Consequently, the previous operating strategy to develop multiple platforms in-house has to be revamped to reflect current challenges. Thus the pursuit of strategic alliances with international partners for mutual benefit.

#### Alliance and Collaboration Strategy

In the last one year, PROTON undertook a review of its alliance and collaboration strategy. Clearly, the proposed collaboration in the past could not meet the specific needs of the Group. Going forward, PROTON will pursue a collaborative strategy that is flexible, balanced, mutually beneficial and specifically tailored for the Group requirements. It will focus on establishing collaborations aimed at acquiring the right technology, expertise and know-how to become a competitive car manufacturer globally. These collaborations are also for the purpose of acquiring products, where appropriate, to optimise capacity usage and even for gaining market access.

PROTON could conceivably establish alliances and collaborations with different partners for different purposes.

It is in line with this new philosophy that on 3 February 2006, PROTON entered into a Memorandum of Understanding with Japanese automaker, Mitsubishi

Motor Corporation ("Mitsubishi"). The collaboration with Mitsubishi is part of the Product Alliance strategy and will enable PROTON to quickly develop additional products and technical expertise in specific areas.

In addition to the agreement with Mitsubishi, PROTON had also entered into a Memorandum of Understanding with Chery Automobile Company Limited ("Chery") on 23 May 2006. The business arrangement with Chery provides the opportunity for both companies to work together, amongst others, to co-source materials and components.

PROTON, via Lotus Engineering Malaysia, had also entered into a Memorandum of Understanding with Jinhua-Youngman Automobile Limited ("Jinhua-Youngman") on 23 May 2006. The collaboration with Jinhua-Youngman is particularly significant from a business standpoint as it provides PROTON with the opportunity to improve its revenue generating capabilities from the licensing of some of the Group's technologies. More importantly, this collaboration will also assist in introducing PROTON's products to China, one of the most vibrant automotive markets in the world.



*“...going forward, PROTON will focus on delivering to its customers, the right car for the right market at the right time for the right price”*

Apart from the international collaborations, PROTON had also on 2 February 2006, signed a Memorandum of Understanding with Petroliaam Nasional Berhad (Petronas). This collaboration is aimed at exploring the possibility of further developing Petronas' large capacity engines for use in PROTON's cars.

In all these relationships, PROTON will seek to establish partnerships that are mutually beneficial and which will optimise stakeholder value.

#### **Operations Strategy**

Despite the shortcomings of the past and the current challenging environment going forward, the Group will endeavour to improve and regain its domestic market share, while continuing to promote export growth. The Group will also continue to intensify efforts to further improve quality, enhance cost competitiveness and introduce new models to mitigate the impact of higher costs and increasing competition.

Under the management team led by Managing Director, Syed Zainal Abidin, the Group is actively looking to rebuild and realign its internal resources, particularly its managerial resources, to be able to meet new priorities and new challenges. While there is a need for haste, at the same time more discipline is warranted to ensure things are done in an effective manner for long-term profitability.

Some of the clear lessons learnt in the last year include the need for PROTON to realign its resources to enable rapid renewal of its core products, and the need to be more economical in its product development strategy. These were not applied vigorously enough in the past and led to PROTON losing its dominant market share in the domestic market. Moving forward, rapid renewal of core products and a more realistic platform strategy for optimising the use of available platforms and components bin, will form the cornerstones of the Company's strategy to improve its cost-competitiveness.

Despite the focus on improving cost-competitiveness, PROTON will not renege on the promise to deliver "the right car for the right market at the right time for the right price". It will spare no effort to deliver on this promise. Although PROTON has had to re-evaluate its product planning, I am confident that

the company will be able to introduce a new product range based on this philosophy within the next 12 months. This will then herald in the new product cycle of PROTON, developed on the promise of giving the customer what it wants!

The implementation of quality programmes to enhance the quality of PROTON's products, services and brand image is an extremely important thrust given the continued perception issues afflicting the brand. PROTON has shown that it is capable of producing good quality products, as evident with the recently launched Satria Neo. Going forward, the company will continue to stress on the need to "over deliver" on quality to address the continuing perception issues regarding its quality.

#### **Restructurings and recapitalisations**

Apart from the above, it is also clear that further restructuring of the Group is needed to make it more efficient and effective. The restructuring will also include recapitalisation of key overseas subsidiaries to ensure they remain financially sound to better serve the interest of their respective customers. With this in mind, PROTON is currently working towards recapitalising its distributive arms in the United Kingdom and Australia, as well as its subsidiary, Lotus Group International Ltd.

In addition, the Group is also planning to rationalise and optimise its domestic and international distribution/dealer network, to make the network more cost-effective, whilst at the same time improve customer satisfaction at point of sale as well as after-sales service.

Both restructuring efforts are significant undertakings and will likely take some time to implement successfully. Once fully implemented, PROTON has no doubt that the subsidiaries and distribution/dealer network will be on a better financial footing and will be able to serve its customers better.

The three strategic initiatives mentioned are but a few of the initiatives currently being worked on by PROTON. There are naturally other initiatives that will be implemented as part of the Group's commitment to improve itself. The industry landscape is such that PROTON must continue to demonstrate great commitment and self-reliance to remain relevant to its stakeholders. The Group is confident that these key thrusts will take it back on the road to profitability and long-term success.

#### **FUTURE PROSPECTS**

The various challenges and trends affecting the global automotive industry, have to a large extent adversely affected the fortunes of many automotive industry players. There are not that many that have emerged from the last few years unscathed. Looking ahead, market complexity and interdependence are increasing. The road ahead for PROTON will continue to be challenging given the global trends affecting the automotive sector and specific factors affecting the company.

It is with this in mind that since mid-2005, PROTON had been realigning its various core strategies – such as the new product and export strategy. However, due to the complexity of several of these initiatives, some remain in the process of implementation and have yet to generate a positive effect for the company.

Notwithstanding this fact, PROTON remains positive that with the various remedial steps being taken and the commitment of its staff and employees, as well as other stakeholders, it will be able to surmount the current challenges and emerge a stronger, leaner and more disciplined company.

## ACKNOWLEDGEMENTS

As PROTON puts another year behind it and moves on to new challenges, we want to appreciate the efforts of the many people that make up the PROTON family.

On behalf of the Board of Directors, I wish to convey our sincere appreciation to PROTON's staff and employees, at all levels and across the various functions and many continents. We are grateful for all your sacrifices and contributions. I trust that the staff and employees of the PROTON Group will continue to provide their support and hard work to ensure PROTON's continued success, as we forge ahead into the new automotive landscape.

On behalf of PROTON Group, I would also like to convey my appreciation to Datuk Kisai Rahmat, who has resigned, for his service and contribution to the Group over the years.

We are also grateful to the support shown by our partners – PROTON's vendors and suppliers as well as our distribution and sales teams. Our utmost appreciation to the vendors who have stood by us through both the good and lean times – we acknowledge the many sacrifices you have made. To our distributors and dealers – PROTON's

brand ambassadors – we applaud your efforts and contributions to PROTON's success.

We take this opportunity to acknowledge the contributions of Edaran Otomobil Nasional Berhad (EON) and their dealers under EDAM, and also our very own PROTON Edar and their dealers grouped under PEDDA. We look forward to your continued support and on our part will do what is necessary to enhance and strengthen our partnership for our mutual benefits.

PROTON would not be where it is today without the strong support of the Rt.Hon. Prime Minister, Y.A.B. Dato' Seri Abdullah Haji Ahmad Badawi and the Malaysian Government through its various Ministries and agencies. We are committed to working closely with the Government, in the spirit of Malaysia Incorporated, for the betterment of the national automotive industry and our nation.

PROTON would also like to record its appreciation to all its customers that have continuously supported the company and its products over the years. We realise full well that a large part of the company's success over the years is due to the strong support shown by customers. As such, PROTON

is committed to ensure that going forward it will continuously improve the quality of its products as well as the level of after-sales service.

Last but not least, our sincere appreciation to PROTON's shareholders who have to a great extent, been instrumental in nurturing its success from a fledgling automotive manufacturer to where it is today. Of course, there is still a long way to go before PROTON can truly call itself a successful global player. In any event, we thank you for your support and guidance which has helped seen this Company through.

It is our sincere hope that all our key stakeholders will continue to support and work together with PROTON with renewed commitment and perseverance to support our products, the brand and the Group, more so amidst this challenging new landscape.

Thank you.



**Dato' Mohammed Azlan bin Hashim**  
*Chairman*



# An Interview

with the

## Managing Director

### THE WAY FORWARD

PROTON's new Managing Director, Syed Zainal Abidin bin Syed Mohamed Tahir, shares his insights on the strategic initiatives being undertaken to make PROTON more competitive and agile amidst a rapidly changing automotive landscape.

### **What are** your impressions of PROTON since you came onboard 1 January 2006?

The basics are very much in place at PROTON. The one thing is that, somewhere along the line we may have lacked the discipline to ensure that certain processes were followed appropriately. We intend to put everything back into perspective so that everyone is aligned. If we are strong in monitoring this, we will achieve the results we want - it will all come together. What's needed now is that the right people are in the right system (business process) with a strong desire to set things right.

SYED ZAINAL ABIDIN BIN SYED MOHAMED TAHIR  
MANAGING DIRECTOR

### You've been tasked with moving PROTON forward – how will you achieve this?

After taking a long hard look internally and externally, we've decided to focus on seven critical areas that will put us back on the road to being truly competitive. Our key thrusts will involve initiatives in the areas of:

- 1. Product Development** – We will focus on introducing the right car, for the right market, at the right price and at the right time. It is about producing vehicles that are not only exciting, of a diverse range and model, but also those that are in line with what the market wants and of better and higher quality. We will be sending at least 50 technical staff to dealers and service centres in various parts of the country to get feedback. These staff will act as our ambassadors to gather feedback from customers for three months and if the outcome is positive we will implement it over a longer period. PROTON will use this information to build cars that the people want instead of what it feels they should drive. PROTON will also abandon its "silo" approach to building cars so that the good and the bad experiences can be shared across all platforms. PROTON will also develop new cars of its own and those in collaboration with other car makers, to replace some of PROTON's existing models which have been on the road for too long. PROTON is tapping deeper synergies with LOTUS and will work on producing "more affordable" LOTUS cars using advanced PROTON vehicle platforms.
- 2. Quality Enhancements and Improvements** – A number of quality programmes have been initiated and more will be introduced to enhance the quality of not only our products but also our services. These programmes aim to paint a more positive perception of the brand among car buyers and existing PROTON car owners. To ensure this, the division that looks after product quality will no longer fall under the control of the factory but will report directly to me. Every morning, employees at our factories are reminded about the importance of quality for 60 seconds before they begin work. There is always room for improvement because quality is not something that remains stagnant, but constantly evolves. PROTON must keep abreast of these developments and changes in the industry as well as customer needs and requirements.

3. **Cost Improvements** – Cost improvements or cost savings here do not necessarily translate into lower or cheaper quality products and services. Instead, improvements here focus on the entire network’s ability to operate in a more productive and efficient manner thus further reducing wastage or unnecessary costs. PROTON will consolidate its parts-making manufacturers and suppliers, focussing on 20 to 30 core vendors. The rest of the parts and components suppliers should deal directly with these key vendors. Currently we have 14 logistics providers and this is not very efficient. We may want to reduce this number to three or two, at best. This will translate into better response and cost efficiencies. Improvements in quality and factory efficiencies will further contribute to cost savings.
4. **Enhancements to Production and Efficiency** – This initiative relates to how PROTON will identify and arrest weaknesses and inefficiencies across the board in its current operations. PROTON will reduce the 1,700 third party suppliers of raw materials and other non-automotive components and will deal directly with the source. This will minimise transactions that do not create any value for PROTON. The production process will be reviewed to eliminate any inefficiency in manpower and machinery.
5. **Vendor Development** – As a national car company and as the backbone of Malaysia’s automotive industry, PROTON has both a national and social obligation to ensure that local vendors have the necessary expertise, resources, skills, international accreditation and competitive edge to take Malaysia’s component manufacturing industry several notches up. PROTON will implement a first-tier concept for our vendors. The selection for Tier One vendors will be very stringent. Tier One vendors must prove that they possess the capability as well as astute financial and management skills to run their business well; besides this, they must uphold high quality standards and undertake research and development activities. PROTON will work closely with the vendors to ensure continuous improvement in quality and efficiency is implemented.
6. **Enhancement of Sales, Distribution and After Sales Service** – PROTON will focus on consolidating and improving its existing network and presenting itself to consumers in a more effective manner. Delivery of cars will be done at our customers’ convenience – even if they request the pick-up at 10 pm, we must be able to accommodate this request. PROTON will also now refocus on its export strategy and will ensure a balance between volume and profitability when pursuing its export model. Other initiatives here will also include creating synergies in logistics, distribution, spare-parts and training. PROTON is no longer in the business of just manufacturing and selling cars, but must, however, undertake measures to enhance its pre, in and post-customer service efforts.



7. **Human Capital Development** – Every employee, representative and even our business partners must not only understand what is required of them and have the appropriate resources at hand, more importantly, they must be equipped with the right knowledge and skills. Our people are our greatest asset. A renewed emphasis will be given to upgrading employees and representatives' skills-sets and technical knowledge, as well as inculcating a positive mindset among them to embrace the changes going forward.

## THE WAY FORWARD

### EXPECTED DELIVERABLES

- SATISFIED CUSTOMERS
- WIDER MARKET
- COMPETITIVE PRICING
- POSITIVE PERCEPTION
- MORE CUSTOMERS
- SUSTAINABLE MARGIN

### 7 CRITICAL AREAS OF FOCUS

<b>PRODUCT DEVELOPMENT</b>	<b>QUALITY</b>	<b>COST CONTROL</b>	<b>MANUFACTURING EFFICIENCY</b>	<b>VENDOR DEVELOPMENT</b>	<b>SALES &amp; DISTRIBUTION</b>
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ORGANISATION STRUCTURE

If we are to truly move forward, we must do all that is necessary to ensure these seven key areas are effectively turned around. They will be the foundation upon which we build this company up again. To build a house you need a strong foundation. If the sub-structure and the floor is weak, your house will collapse and that's something we can't afford. The elements of the new road map for PROTON underline this i.e. that we form and strengthen the foundation first, so that when the future presents itself, we already have a strong base and are prepared to respond accordingly.

### **What is your part in all this?**

My job, and that of my team, is to harness and align every member in the PROTON family to help realise our objectives. We're not here merely to help set the direction, but, to support the family, making sure that there is a conducive working environment in order to achieve our objectives. There is no individual in this world who does not want to improve or to change, but in order to do so successfully, there has to be the right working environment and chemistry. PROTON's new management understands this, is focused on what it wants to do, and will effect the necessary positive changes to move forward.

### **How will PROTON's product development initiative play out?**

We need to venture out to really understand what the market wants. We will go out and study our customers, dealers, etc. to understand who our target market is. This information must be in place before we can even start thinking of building a car.

We will focus on segments where we are very strong and will expand our presence there by introducing a greater variety of products. We will be open-minded and look at products that are suitable across borders. Having said that, we have to be really realistic about the markets we want to penetrate into, taking into account our weaknesses and strengths. We will study these markets by living in them, by understanding the people, by analysing buying trends and by studying what other companies are doing - only then will we design a product and position it to suit that market.

It truly is all about having the right product and coming out with it at the right time and at the right price - all these three elements must work hand in hand for PROTON to be successful. Only when we have a full suite of products in every segment of the car market can you call us a true auto manufacturer.

## What will the quality improvement initiatives entail?

Everyone knows about the numerous quality complaints that plague our brand. We need to be realistic here and stop pointing fingers at any one group, as quality is the ownership and responsibility of everyone. There needs to be a change of attitude and mindset throughout the length and breadth of our organisation if we are to improve – this is the very first step. I believe the journey of improvement has started at PROTON. Some improvements have started, others may take months to achieve. Having said this, it is imperative that we satisfy the requirements of our customers quickly.

Going forward, PROTON must and will offer better quality products. We intend to put the best practices into every car that rolls out of the factory. How do we instil this? It has to be done via training, having managers and supervisors frequently conducting checks, through visualisation, and through a strong belief in quality. We must also set higher benchmarks and everyone in our organisation must have strong quality awareness – not just speaking of it, but visualising it and practicing it in a consistent and not sporadic manner.

A Quality Improvement Committee has been tasked with coordinating and improving all quality programmes found to be inconsistent in the past. Our processes and relationships with vendors are also being reviewed so that all parties understand their respective roles in ensuring quality products. We also need to acquire more information on our customers' buying experiences, analyse this and take the proper steps to resolve negative experiences. Quality must and will be ingrained in everyone.

## What will you do to manage costs and enhance production and efficiency as well as vendors' efforts?

A reduction in costs does not necessarily translate into reduced margins. We can in fact improve our margins. We need to be clear on the areas that we need to be more efficient in. Some 80% of a car is built of add-on materials – so it's not just the parts we have to look at, but the cost of producing these parts and cost of assembling the car. An extensive vendor programme to improve the overall cost index is essential here.

While we are on a level playing field with other automotive players in terms of labour costs, raw material costs and the type of facilities we utilise, we cannot say the same for our overheads. There are two things to consider here: Firstly, the things we have put in place to enhance capacity have not yet been amortised. It is only a matter of time before these costs are recoverable. In this area, we will work to enhance our capacity so there is some incremental reduction.

Secondly, inefficiencies undoubtedly exist. Many vendors do not rise to the level of quality we require, resulting in many rejections – all of which have a direct impact on cost. As a manufacturer, PROTON views our vendors not just as our business partners – we need one another to survive. Going forward, we will allocate the resources and work hand-in-hand with our vendors to improve the situation by reducing these inefficiencies.

We also envisage the inefficiencies within our own factories improving once quality improves and expect this to translate into automatic cost savings. Our Cost Reduction Committee will review the entire supply chain, from components and production to sales and marketing. We will also review the number of outlets we have against the volume we want to push and will initiate a programme to consolidate our dealer network system.

### **How will you harness strategic partnerships and alliances to move forward?**

As a national car manufacturer, we have strong national objectives to fulfil; but at the same time, we must also be realistic. Can we do everything by ourselves? I think not. Consider the MPV and SUV segment today – it's the fastest growing market segment in Malaysia. However, PROTON is definitely not a player here and by the time we can produce a suitable product, I'm afraid we would have already lost out on the opportunity. The one option we have of entering this segment is to engage strategic partnerships and alliances. Here, a strategic alliance may not necessarily involve equity participation. There are many other forms of cooperation including the sharing of resources. In today's auto industry, it is common for two to three auto manufacturers to collaborate to save on cost, time and development expenditure and in the process obtain a larger volume.



In engaging with others, we firstly need to ask ourselves what are the products we want; then, who has them now; and who are the right people with the right product who can assist us in getting into a market? Once we identify who has these attractive products, it's about courting them to see if they are willing to work with us in a win-win situation.

In identifying partners, we will carefully look at three criteria.

Firstly, a partner must be willing to share with us the product that we are looking for.

Secondly, they must also be willing to share with us the technology aimed at enhancing our know-how of building cars and the knowledge of managing manufacturing efficiency, quality, costs, etc. effectively.

Finally, they must also be able to present us with a market or markets in which we have not been able to penetrate because of the lack of a suitable product. At the same time, we must be prepared to offer our partners any of our products that may suit their needs, our own expertise and know-how, as well as open up our markets.

### **Can you elaborate on the key challenges for PROTON today?**

Today, we acknowledge that PROTON needs to regain its sales and market share as the leading car brand in the domestic market, mainly through the consolidated effort on sales operations and quality improvement. The export revenue and brand presence abroad must also be increased. On top of it all, customer satisfaction is an all-important element where various initiatives are being or will be rolled out to make the experience of owning a PROTON, a satisfying one.

Additionally, improvements on manufacturing operations, production systems and purchasing processes; as well as the consolidation of vendors, shall deliver a better financial position for PROTON.

At the same time, we will also explore strategic collaborations and alliances, which will form the base for PROTON's future products, improved quality and operational efficiency. We will also implement a more structured human capital development programme with an emphasis on technical training and exposure to the world's best practices, and, conduct this on an ongoing basis. In recognition of the fact that our people are the company's key asset, we will deploy experienced and skilled personnel to key support functions to strengthen our competitive edge in our markets.

It's going to be a tough journey, but it is one that we must take and will take. We trust that all the parties that have supported us in the past, plus the new ones that want to come along on this adventure, will remain steadfastly with us till we reach the finishing line.





## FOCUS

Our vehicles move beyond fulfilling a need  
rather we share an experience

