

## COVER STORY

# Key players in the saga

## Proton Holdings Bhd

The first Proton hit the streets in 1985 to a mixture of fanfare and scepticism wrapped in nationalistic pride. Sure, the car that went on a nationwide roadshow (pun intended) was a rebadged Mitsubishi Lancer. But there were bits to it that were all ours and, of course, the ubiquitous insignia with the moon and star was all Malaysian.

With the benefit of hindsight, it would be easy to classify the launch of the national car into the teeth of the 1980s economic recession a calculated error of judgement. Be that as it may, Proton persisted and eventually it thrived — until recently.

With the announcement of a net loss of RM12.4 million for 1Q2006, the point was driven home that Proton needs help — urgently. A hole was exposed and the worry is that it will get bigger and bigger and Proton itself could implode into its own miasma.

However, helping Proton is not a simple proposition. For one, Proton is an automaker, one that does not make enough cars to make economic sense, is subsidised by car buyers and has become reviled for continuing to produce aged models at prices that are higher than spanking new and better cars overseas. On top of all that, it exists in an environment that has embraced the Asean Free Trade Area (Afta) agreement.

The effect of this convergence of events is, the government is not in a position to offer Proton crutches that will last indefinitely. In fact, the crutches have to go by 2006 ideally and 2008 at the very latest when World Trade Organisation (WTO) rules kick in.

So help is crucial and Putrajaya actually knows where to find it — if it wants Proton to survive, that is.

## Sime Darby Bhd

The mother of all conglomerates, Sime Darby Bhd has not been known for its adventurous streak — other than the ill-fated foray into banking back in the mid-1990s. When Sime emerged as Proton's possible solution, there were the odd sceptic or two who wondered just what difference this was going to make for Proton's fortunes.

While the sceptics would be prudent to worry, the fact is the Sime of today is a different animal from the Sime of a couple of years ago. Management talks about focus and has thus far proven that it is serious about shedding non-core fat and concentrating on lean and meatier business.

Of all the companies listed on Bursa Malaysia, Sime is perhaps one of the few which has the desired combination

of traits to take over Proton. It has cash. It is experienced in segments of the auto sector. It is helmed by a pragmatic man, Datuk Ahmad Zubir Murshid, who would not think twice about parachuting an appropriate individual into a Sime division, regardless of nationality or race. For him, the ability to execute a job would be the ultimate consideration.

At the end of the day, this is probably what Proton needs most — a pragmatic shareholder who will not be bound by convention, policy considerations or sentiment when making decisions. At the same time, the shareholder needs to have that elusive quality which can only be described as "Malaysian-ness".

## Volkswagen AG

The world's fourth largest automaker put hope into many a Malaysian car buyer's heart when its memorandum of understanding with Proton was signed last October. Not only does VW make well-received cars, it has also a credible track record as a company that turns around Third World brands. For case study, Google "Skoda" and "success".

In a nutshell, a Skoda tottering on the brink of financial oblivion in 1991 was rescued, restructured, re-engineered and rejuvenated. For those who may remember those Skoda jokes of old, take this: Skoda's Octavia won The Most Beautiful Car of the Year 2004 in Milan.

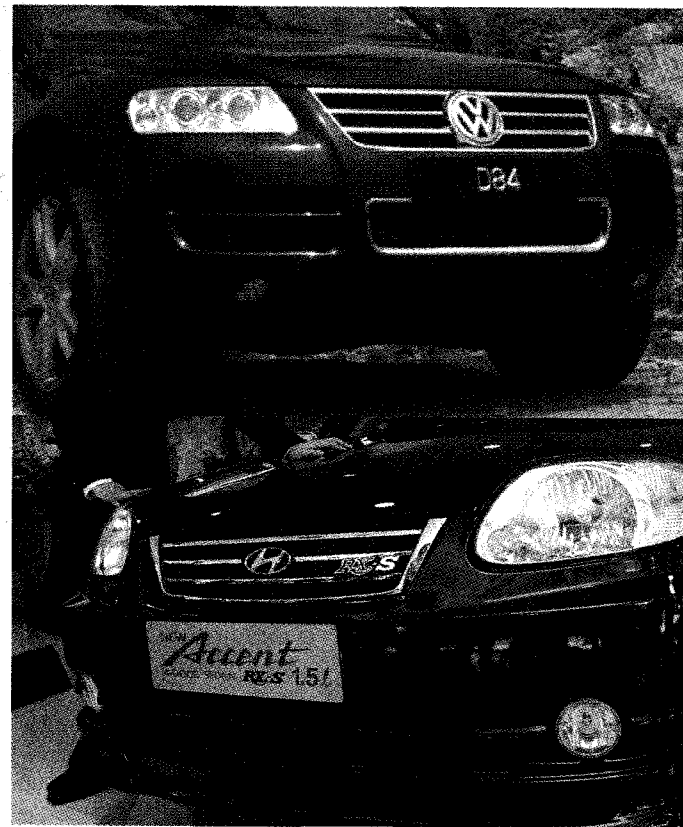
So if partnered with VW, could Proton survive... or succeed as the truly global brand it has thus far failed to become? The answer to that question should ideally dictate whether or not Putrajaya finally lets VW come in to Proton and take it over.

## Hyundai Motor Car

Hyundai would be the motoring equivalent of China — an upstart in a world market that the established players don't quite know how to handle.

Those were the days when you bought Korean cars because you couldn't afford anything else — other than a Proton, that is. But today, there are those who can afford non-Koreans but choose to buy Korean because they offer value for money. The cars look snazzier than they ever have and have features that are comparable to competitive models.

More importantly, Hyundai appears to have got its overseas strategy right, having broken into the American market — profitably. Sure there are those who say that Hyundais are sold largely in poor neighbourhoods, but looking at the com-



How will Volkswagen and Hyundai fit into the overall plan for Proton?

pany's track record, there is every reason to be confident that its image should improve, given time.

But for Malaysia, the question would be, can a Hyundai-Proton tie-up add value for Proton? If the idea is to buy Hyundai's platforms and manufacture Proton cars on them, questions should be asked on how Proton and Hyundai would fare side by side, especially considering that both operate in similar class segments. After all, Hyundai already owns KIA Motors, the car most regard as "one up from Proton". Thus with a Hyundai tie-up, how would Proton be positioned?

## Khazanah Nasional Bhd

There are those who would say that Khazanah Nasional Bhd became Proton's largest shareholder by default. In 2002, it took over a 24.4% stake in Proton from Petroliam Nasional Bhd (Petronas), which pushed it into the big league as the controlling shareholder of the national car company.

## THE PROTON STORY

### 1981

- During the Mitsubishi Corp president's visit to Malaysia, then Prime Minister Tun Dr Mahathir Mohamad proposes a joint venture (JV) to manufacture the national car.

### 1982

- The Cabinet approves the national car project.

### 1983

- Perusahaan Otomobil Nasional (Proton) is founded as a 70:30 venture between state-owned Heavy Industries Corp of Malaysia (Hicom) and Mitsubishi Motors.

### 1984

- Prototype model is tested on the road.
- Edaran Otomobil Nasional Sdn Bhd (EON) is privatised.

### 1985

- Proton Saga, based on the Mitsubishi Lancer, is launched. It enjoys lower import duties than those imposed on its rivals.
- Local car sales fall to 47,000 units from 110,000 units a year earlier due to economic recession.

### 1986

- The higher duties on non-Proton cars propel Proton to become Malaysia's best-selling car, with a 47% market share.
- Proton Saga is exported for the first time: 25 units to Bangladesh.
- Proton posts losses of RM42.5 million in its first year of operation ended March 31, 1986.

### 1987

- The 50,000th Proton car is produced.

### 1988

- Mitsubishi takes over the Proton management.
- Proton's market share grows to 73%.
- Kenji Iwasawa, Mitsubishi Motors Corp's full-time adviser to Proton, is appointed as Proton president following a request by the government for assistance to boost sales, which only totalled 25,000 units in 1987 against a planned 70,000 due to poor domestic demand.
- Kenji Iwabuchi is appointed Proton's managing director.

### 1989

- Proton cars begin to be marketed in the UK.

- The local engine assembly project starts.
- The 150,000th Proton car is produced.
- Proton makes its first ever profit of RM32 million for the year to March 31, 1989, from a RM58.5 million loss a year earlier.

### 1990

- The 200,000th Proton car is produced.
- The 12-valve Megavalve Proton Saga is launched.

### 1991

- The 300,000th Proton car is produced.
- Proton starts its engine assembling and transmission factory.

### 1992

- Proton is listed on the Kuala Lumpur Stock Exchange, raising RM750 million in the process via issuance of 150 million new shares at an issue price of RM5 each.
- Proton Iswara is launched.

### 1993

- Proton's research & development facility is launched.

- Datuk Mohd Nadzmi Mohd Salleh becomes Proton's managing director.
- Proton Wira and Wira Aeroback are launched.
- The 500,000th Proton car is produced.

### 1994

- Proton Satria is launched.
- DRB's subsidiary Usahasama Proton-DRB enters into an MoU with Automobile Citroën of France and Proton to develop the third national car.
- Proton signs an MoU with Rover Group Ltd to develop other types of vehicles, including four-wheel drive vehicle.

### 1995

- Proton Perdana, based on the Mitsubishi Eterna, is launched.
- Proton identifies land in Tanjung Malim to build its second plant, which is expected to be operational by 1998.
- Proton and France sign an agreement to develop a local variant of the Citroën AX.
- Datuk Yahaya Ahmad acquires a 32% stake in Hicom via Diversified Resources Bhd for RM1.7 billion.



THE EDGE

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bent chairman Datuk Azlan Hashim at the helm. Azlan, the former chairman of the then Kuala Lumpur Stock Exchange, a man known for his no-nonsense style, went head-on with the CEO. This time it was Azlan who persevered and Mahaleel whose "contract was not renewed" though Mahathir repeatedly referred to his "dismissal".

Now, Khazanah stands charged with the task of ensuring that Proton continues into the 21st century at a time when age-old crutches will have to be removed. Khazanah is also in a position to decide whether or not a foreign partner will come in and what form the partnership will take. None of its decisions will be easy to make but without the luxury of time or many choices, Khazanah will have to make an announcement sooner rather than later.

## Tun Dr Mahathir Mohamad

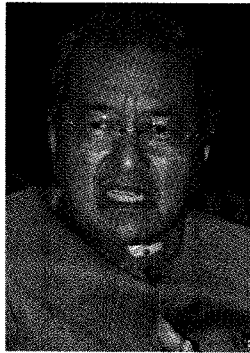
LEE LAY KIN/THE EDGE

If paternity had to be established, Mahathir would be the man most would identify as the "father of Proton". It is historical fact that he implemented it against strenuous objections from the highest levels.

Under his stewardship of the country, policies were implemented to ensure that Proton was allowed a smooth ride at the expense of the ordinary car buyer. Debilitating import taxes were imposed to ensure that competitive models were priced out of the reach of the average Malaysian car buyer. Proton thrived in this environment.

In his defence, it should be pointed out that while he created the chrysalis for Proton to ready itself for the world market, Mahathir was not in a position to ensure that the company was actually getting itself up to speed on quality and perception issues — perhaps, the two most dogged faults one could find with Proton.

When he was appointed adviser, Mahathir came closer to the national car than he'd even been. This was when he came out, critical of government policy, some of which had been implemented under his tenure as Prime Minister. At the same time, true to form, Mahathir has been consistent in his defence of Proton and those who have managed it over the years. He has made it clear that in his opinion, at least, the agenda behind the company is worth the price Malaysians have paid for the last 20 years for expensive foreign marques. //



Petronas, it is said, found it difficult to work with Proton's chief executive officer Tengku Tan Sri Mahaleel Tengku Ariff, who was known to seek the then Prime Minister's consent instead of his board's.

Khazanah, too, would find Mahaleel difficult. In early 2004, there was rumoured to be an attempt to oust Mahaleel from the board of Proton, led by then Khazanah-appointed Proton chairman Datuk Abu Hassan Kendut. Stories in newspapers then were headlined quoting Mahaleel as saying, "I am still CEO". Around then, former Prime Minister Tun Dr Mahathir Mohamad was appointed Proton adviser, an office he says he was asked to hold. Publicly, an uneasy accord seemed to have been reached, with Mahaleel and the board co-existing with the adviser. By the beginning of this year, it became apparent that the situation was still volatile. Abu Hassan resigned as chairman, many in the know say, in frustration. Mahathir himself said that Abu Hassan and other directors claimed that Mahaleel was "non-compliant".

With Abu Hassan's resignation, Khazanah installed incum-

### 1998

- Proton enters into an agreement with Lotus Engineering Ltd to enhance its capability in research and development, and noise, vibration and harshness.
- Perdana V6 and Satria Gti are launched.
- Proton City development is deferred due to the Asian financial crisis, which also causes Proton sales to slump. Its net profit for year to March 31, 1998, falls sharply to RM440.57 million from RM741.47 million previously.
- Proton and Petronas form a joint venture to develop an engine.
- Proton posts an interim loss for the first time in the 1990s. Its net loss amounts to RM123 million for the first half ended Sept 30, 1998, compared with the previous year's interim net profit of RM415.25 million.

### 1999

- Proton's R&D facility is launched.

### 2000

- Proton's first in-house design car, Proton Waja, is launched.
- Proton Juara, a 1.1-litre mini MPV based on the

Mitsubishi Townbox, is launched.

- Proton winds down production of Proton Tiara amid uncertainty over its collaboration with Automotive Citroën.
- Petronas acquires a 27% stake in Proton from DRB-Hicom for RM1 billion, some two years after negotiations start.
- Saleh Sulong resigns as Proton chairman. He is replaced by Tan Sri Mohd Hassan Marican.

### 2001

- Proton unveils the prototype CamPro engine at the Lotus factory, Norwich, England.

### 2002

- Proton launches the Proton Waja 1.8 litre and Proton Arena, a two-door pick-up.
- Proton chooses not to use engine developed by Petronas.
- Petronas disposes of its stake in Proton to Khazanah Nasional Bhd. Hassan Marican resigns as Proton's chairman and is replaced by Abu Hassan Kendut.

### 2003

- Proton expects its new CamPro engine to be fitted in its new car by the first quarter.

### 2004

- Proton Gen.2 Is launched.
- Proton acquires a majority share in MV Augusta of Italy. It is a manufacturer of MV Augusta, Husqvarna and Cagiva motorcycles.

### 2005

- Datuk Mohamed Azlan Hashim is appointed Proton's chairman to replace Datuk Hassan Kendut.
- Proton Savvy is launched.
- Proton's market share stands at 38.3% for July vehicle sales. Perodua is trailing at 33.9%.
- Proton posts a net loss of RM42.35 million in the first quarter ended June 30, 2005, from a net profit of RM166.47 million in the previous corresponding quarter.
- Mahaleel irks Proton board after he criticises the government's automotive policy.
- Proton board decides not to renew Mahaleel's contract, which expires on Sept 30, 2005.

- Subsequently, Yahaya is appointed Proton chairman.

### 1996

- Proton buys 80% of British sports-car maker Lotus Group International Ltd to upgrade its engineering capabilities.
- Tengku Tan Sri Mahaleel Ariff joins Proton as the vice-chairman of operations and strategy.
- Proton Tiara, based on the Citroën AX, is launched.
- Proton Putra, a two-door coupe, is launched.
- Proton produces its one millionth car.
- Proton asks EON to surrender its exclusive distribution rights to Proton cars.
- Datuk Mohd Nadzmi Mohd Salleh resigns as Proton's managing director.

### 1997

- Tan Sri Saleh Sulong becomes Proton chairman after Yahaya and his wife die in a helicopter crash in March.
- Proton plans to jointly develop two small cars with Mitsubishi Motors Corp.
- Mahaleel is appointed Proton CEO.