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THE PROTON SAGA

Q & A

Former Prime Minister Tun Dr Mahathir Mohamad and former Proton chief executive officer Tengku Tan Sri Mahaleel Tengku Ariff have on recent occasions criticised Proton Holdings Bhd for selling motorcycle maker MV Agusta. Yesterday, Proton provided answers to questions raised by them and others regarding the sale.



Azlan says Dr Mahathir will continue as Proton adviser.

Q: Why was MV Agusta sold?

A: The acquisition of Agusta was unlikely to deliver on the original justifications presented by the management.

Q: What were some of the justifications put forth when buying Agusta?

A: One was that it would diversify the revenue stream and reduce reliance on the increasingly competitive car market. But it did not diversify the revenue stream and was unlikely to do so. Agusta had lost approximately Euro118 million over the last six years to Dec 31 2005, averaging about Euro 20 million a year.

It was said that the purchase of Agusta would achieve operational, engineering and technological synergies between Agusta and Proton but this did not happen as Proton manufactures cars for the masses while Agusta manufactures motorcycles.

Another reason was to act as a catalyst and accelerate Proton's own motorcycle manufacturing programme but Proton does not have any such programme.

Q: Could Proton not have turned Agusta around?

A: It would have required substantial backing from Proton over an extended period. There was the real possibility that Agusta would fall into bankruptcy. In the event Agusta fell into bankruptcy, Proton would have been subjected to a contingent liability for an amount up to Euro202 million (RM923.1 million).

After due consideration and professional advice, given the limited options available, it was clear that the most optimal route for Proton was to exit Agusta completely via a disposal of its equity interest. The primary consideration was to minimise future potential losses to the group.

Q: Did the sale have an adverse impact on Proton?

A: "The disposal itself did not have an adverse impact on the accounts or the financial standing of the Group. The losses were in fact recognised at the time of the purchase.

When we bought the company for approximately 70 million euros, this company was in a net liability situation. Therefore the entire consideration of 70 million euros was recognised as goodwill and the management at that time then treated it as goodwill and wrote it off in the accounts in the immediate year. Therefore, really, the carrying value of this investment had already been reduced to one ringgit.

Q: So the sale did not result in the loss?

A: During the ownership period, Proton made further advances to Agusta and this is what resulted in us having to make the additional provisions during the financial year ended March 2006. Again that would prove clearly that the sale or disposal that we signed up in December 2005 and completed in March 2006 is not the action that resulted in the loss. The loss really was already recognised at the time of the purchase and on the provisioning and advances already made earlier before any decision to sell.

Q: Why were provisions made?

A: Because the advances were unsecured and were given as clean advances or direct advance of money or assistance in purchases. That was a total loss of about 500 million ringgit. It is educational to actually go back to examine why was it purchased in the first place then, since that was what caused the loss.

Q: Is Proton saying it was a bad buy?

A: Firstly, this is a very specialised business, number two it was producing motorcycles that are of relatively high value, again not a mass market.

Number three this is a loss making company with a track record of losses and it continued to lose money. Number four it had a huge debt burden and if the debt burden wasn't bad enough there was a contingent liability attached to it.

Therefore you can imagine not many people would be interested to buy this company.

In fact, invariably, in these circumstances one would almost expect to have to pay people money to take this company off your hands.

These shares that we had were the majority, but the structure in which the shares were all tied up with the minorities gave us very little flexibility.

Q: But why sell it for one Euro?

A: When we went to the banks, the banks that knew this company very well, the main financier to the company, the bank said the shares were worthless. And then the other partner we had, who sold the company to us, he also reckoned that the shares that we held were worth not more than one euro.

By that time we had already been in discussion with an investment bank with a global network and they said this was going to be extremely difficult as it was firstly so specialised, and two, the financial situation of the company was so bad.

Q: How did Proton get the buyer?

A: Word had gone around and these people approached us. They were related to some bank in Italy and they felt that they wanted to give it a go.

Q: Why sell it to them?

A: Firstly there was not much choice. Number two, whoever it was that was going to buy this company had to meet several conditions. They had to be financially sound, they had to be committed to see it through over a period of time, they had to put up a credible plan acceptable to bankers and this credible plan had to meet with the acceptance of the local authorities.

You must remember that this company had just come out of controlled administration. This is similar to our section 176 or chapter 11 in the American context. So when you come out of it there are still certain conditions. This company was prepared to put in money, make available additional lines and was able to convince existing bankers and put up a plan that was accepted by the local authorities.

Q: Why did Proton not ask for a higher price?

A: Of course we sought a higher figure. We wanted to try and recover our entire investment, but that was not to be. We tried everything possible. We had five months of intensive discussions and evaluations. The board's directors had access to advise from our professional advisers, investment bankers and lawyers and the like. We were going back and forth.

It was with a very heavy heart that we had to call it a day.

Q: Why wasn't the tenure of former chief executive officer Tengku Tan Sri Mahaleel Tengku Ariff not extended?

A: The board of directors at its meeting on July 25, 2005 resolved not to renew his tenure. This was well within the ambit and authority of the company and the board of directors.

Auto policy good for business

PROTON Holdings Berhad managing director Syed Zainal-Abidin Syed Mohamed Tahir on the National Automotive Policy:

Q: Has the NAP placed Proton at a disadvantage?

A: I don't think so. I think what the NAP provides is a very clear environment in business for going forward.

The support of the Government is very clear and the outline is very clear in terms of what is required in going forward — investment, and the level that is required to get the necessary incentive.

It doesn't make a difference whether you are a national car or non-national car maker.

To go forward, at least for the next five years, (the situation) is very clear. That is very important to us.

Now we know and can put our strategy in place to support the Government in making Malaysia an automotive hub. (This includes) the localising programme that we have to do, the research and development that we have to do and the export programmes that we have to do.

In that sense, we have been waiting for the Government for many years to come out with the NAP.

Now, the outline is very clear.