

# MANAGING DIRECTOR'S REVIEW OF OPERATIONS

## DEAR SHAREHOLDERS,

THE FINANCIAL YEAR ENDED 31 MARCH 2009 SAW THE EON GROUP CONTINUING TO IMPLEMENT VARIOUS MEASURES TO RATIONALISE AND STREAMLINE OUR OPERATIONS WITH THE AIM OF MAINTAINING OUR COMPETITIVE EDGE. AS WE ENTERED OUR TWENTY-FOURTH YEAR OF AUTOMOTIVE OPERATIONS AMIDST A HIGHLY COMPETITIVE LANDSCAPE, WE DID SO WITH A NEW RESOLVE TO MEET THE CHALLENGES OF THE MARKETPLACE HEAD ON WHILE MAKING THE MOST OF THE OPPORTUNITIES BEFORE US. WE EXITED UNPROFITABLE BUSINESS AND EMBRACED NEW OPPORTUNITIES WHERE IT MADE SENSE TO DO SO. I AM PLEASED TO SAY THAT OUR EFFORTS ENABLED US TO ONCE AGAIN DELIVER POSITIVE RESULTS AND EMERGE A LEANER AND MORE COMPETITIVE ENTITY.



## INDUSTRY PERFORMANCE

The Malaysian auto industry experienced a stellar year in 2008 on the back of strong economic growth, positive customer sentiment in the first nine months of the year, as well as attractive and innovative financing schemes featuring low hire purchase rates, longer repayment periods and higher margins of financing. The large number of new model introductions and aggressive sales efforts by industry players further bolstered sales. As a result, the Total Industry Volume ("TIV") of motor vehicles sold in the country in 2008 stood at 548,115 units against the 487,176 units registered in 2007, an impressive 12.5% increase and the second highest result after 2005's record breaking year.

The passenger vehicle segment comprising passenger cars, window vans, multi-purpose vehicles and four-wheel drive/sport utility vehicles, totalled 497,459 units or close to a 91% share of 2008's TIV. Proton passenger vehicles comprised 141,780 units or 28.5% of total passenger vehicle market share, an increase of 24,159 units over 117,621 units in 2007. However, in the first quarter of 2009, the Malaysian Automotive Association ("MAA") announced that TIV had dropped by 9% to 118,681 units in comparison to 130,774 units in the corresponding quarter in 2008 amidst a flagging economy.

## GROUP PERFORMANCE

For the financial year ended 31 March 2009, the EON Group recorded revenue of RM2,419.9 million on the back of higher sales volume of Proton, Mitsubishi and Audi vehicles. Net profit attributable to shareholders stood at RM25.7 million while basic earnings per share was 10 sen.

### EON BERHAD

#### New Vehicle Sales

For the financial year under review, EON's sales of Proton vehicles were higher at 47,187 units over the 12-month financial period compared to 45,916 units over the preceding 15-month financial period.

The strong ties we have established with Proton Edar Sdn Bhd ("EDAR") helped to improve stock availability to a great extent and ensured quicker deliveries to meet customer demand. With the execution of the new Master Dealership Agreement ("MDA") with EDAR on 8 May 2009, we will focus our efforts on rationalising our sales and service centres with the aim of improving and strengthening the Proton dealer network nationwide.

## After Sales Service

The After Sales division registered service throughput of 441,376 units for the financial year ended 31 March 2009. Of this total throughput, EON branches accounted for 273,615 units while our Franchised Service Dealers accounted for the remaining 167,761 units. Collision repair throughput at our branches touched 6,914 units over the same period.

To entice more customers into EON service centres, our After Sales team undertook several promotional initiatives over the course of the year. These included special service packages, genuine parts campaigns, mobile service and maintenance initiatives, as well as seasonal and festive service campaigns.

Moving forward, After Sales will focus its efforts on establishing incentives for branch personnel in a bid to improve workshop throughput and dollar per car activities. The division will also continue to explore opportunities to bolster the ties with corporate customers and government organisations.



#### EUROMOBIL SDN BHD ("Euromobil")

Euromobil, our luxury car retailing arm posted revenue of RM52.8 million and profit before tax ("PBT") of RM3.2 million for the year under review amidst a highly competitive market environment. The year saw Euromobil focusing its efforts on affirming the Audi marque as a premium brand through aggressively introducing several new models. Following the launch of the celebrated new Audi A4 (B8) model in June 2008, Euromobil received encouraging orders which has led to the A4 currently being the volume seller for the company. The Audi A6 with its new facelift introduced in January 2009, also received encouraging response.

Going forward, Euromobil is aligning its business plan to AUDI AG's plan for Malaysia where the company will invest in advertising and promotional activities as well as increase its sales and after sales network. The company set up a new 3S outlet at Penang in June 2009 followed by a new showroom in Kuala Lumpur by September 2009. The month of May also saw the company launching the new Audi Q5 which received overwhelming response while the new 3.2L A8 model is expected to be launched by the end of the year. Euromobil is targeting to set up a new showroom in Johor by October 2009.

With effect from 1 April 2009, Euromobil ceased its Volkswagen business. With that, the company will turn all its efforts to driving the Audi brand forward.

#### EONMOBIL SDN BHD ("EONMOBIL")

EONMOBIL, which retails the Hyundai and Suzuki range of vehicles, posted total revenue of RM10.9 million for the financial year under review and a loss of RM0.4 million. Due to flagging market performance, EONMOBIL has discontinued these two dealerships. The Hyundai and Suzuki dealerships were discontinued on 30 June 2008 and 1 April 2009 respectively.

#### EON AUTO MART SDN BHD ("EON Auto Mart")

EON Auto Mart retails the Mitsubishi range of vehicles in Malaysia. The financial year saw EON Auto Mart recording PBT of RM4.6 million on the back of revenue of RM285.4 million. The company is currently in the midst of opening a new 3S centre at Temasya, Glenmarie that will focus on sales, service and spare parts activities. The 3S centre is targeted to commence business by September 2009.



### **AUTOMOTIVE CONVERSION ENGINEERING SDN BHD (“ACE”)**

ACE has traditionally been involved in the conversion and modification of Proton vehicles into Executive and Limousine models. ACE posted revenue of RM11.8 million for the year under review and PBT of RM2.1 million.

During the year, ACE aggressively explored opportunities in the area of natural gas vehicles (“NGV”). To date, ACE’s flagship NGV centre located at the Bukit Raja industrial area has been recognised as the preferred NGV installer by customers such as Alam Flora and Gas Malaysia as well as several government linked companies, public transport companies and individuals. Response from taxi companies has been overwhelming and ACE will ride on this trend to strengthen its position as the NGV leader in Malaysia.

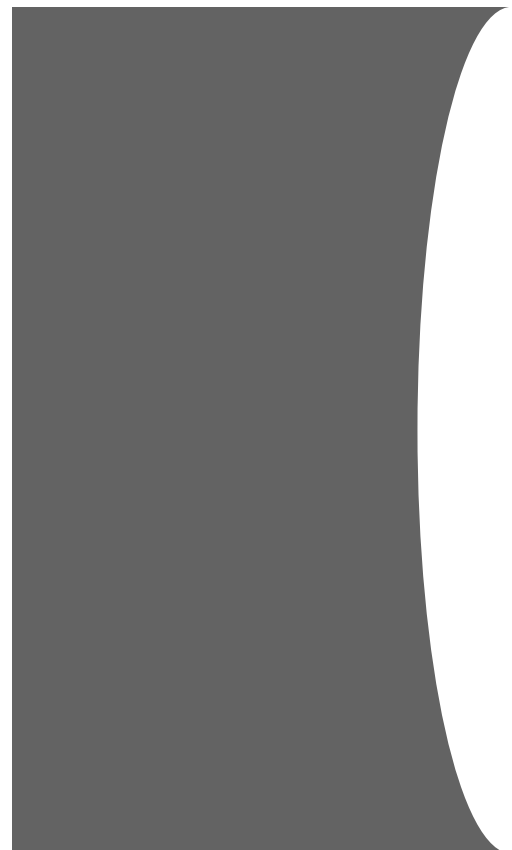
### **MITSUBISHI MOTORS MALAYSIA SDN BHD (“MMM”)**

MMM is the exclusive distributor of Mitsubishi vehicles in Malaysia. The company recorded a credible 73% increase in sales, registering a wholesale volume of 7,321 units as at 31 March 2009 in comparison to 4,230 units as at 31 March 2008.

Since the introduction of the Mitsubishi brand into the market in 2005, the marque has won and continues to win several accolades for its various models. The year saw Mitsubishi’s Triton Lite scooping up Autocar ASEAN’s Pick-up of the Year 2008 award, the third consecutive year that MMM has won the award since 2006. At the same time, the Triton 3.2L also trumped its class in the NST-Maybank Car of the Year Awards 2008. In addition, the Grandis was named the Small/Medium MPV of the Year by Autocar ASEAN.

### **PROTON PARTS CENTRE SDN BHD (“PPC”)**

PPC, a jointly controlled entity of EON and Proton, is primarily involved in the warehousing and distribution of motor vehicle spare parts. For the year under review, PPC registered revenue of RM216 million and PBT of RM22.16 million. During the year, PPC enhanced its Warehouse Management System (“WMS”) which covers the operations of its regional parts centres in East Malaysia and the southern, northern and east coast regions of Peninsular Malaysia. The company also launched its own business-to-consumer (“B2C”) website to cater to the needs of customers that prefer to buy parts through the internet. The improvements to PPC’s WMS and the introduction of its B2C website will enhance customer convenience as well as the service efficiency and quality of its service centres.



## MANAGING DIRECTOR'S REVIEW OF OPERATIONS (cont'd.)

### GROUP HUMAN RESOURCES ("HR")

Group HR continues to support the Group's strategy and business growth by making significant contributions to employee learning and development activities. The year saw our HR team continuing to implement training activities to enhance employee productivity and efficiency as well as manage people challenges and initiatives in support of the Group business plan. Group HR also played an important role in inculcating a positive working environment and work culture, which included maintaining cordial relationships with the four in-house unions and promoting increased awareness of occupational safety, health and environment issues.

Moving forward, Group HR will continue to achieve high quality human resource management throughout the organisation via increasing learning and development opportunities and leveraging on technology for operational efficiency.

### INFORMATION TECHNOLOGY DIVISION ("IT")

Information Technology has been used as means to drive the organisation towards greater integration and cohesion. Leveraging on today's sophisticated hardware, software, and communications technologies, several projects were initiated to further enhance the usage of Internet and maximise the value of EON's IT investments while improving productivity in the areas of sales and after-sales.

Improvements to enhance the reliability of the IT infrastructure have also been completed via the upgrading of UNIX and Windows servers, storage, the Local Area Network backbone, backup system and database. The MIS Division will continue to make every effort to determine areas and opportunities through which EON as a whole can gain maximum business benefit from.

### AKADEMI SAGA

Since its inception in 1991, Akademi Saga, the Group's technical training centre has been meeting the demand for automotive-related education and training through providing certificate and diploma programmes. Akademi Saga recently extended its curriculum by offering the Diploma Kemahiran Malaysia to its first batch of students in March 2009. To date, more than 30,000 internal and external trainees from EON branches, franchise service dealers, sales dealers and various other organisations have passed through the doors of the academy.

To cater to the increasing demand for automotive education and training, Akademi Saga set up another five centres throughout Peninsular and East Malaysia and has plans in the pipeline to fulfil its vision of becoming a pure automotive university college and a contract research facility for the nation.





## GOING FORWARD

The market environment of the motor industry is expected to remain challenging and competitive for the financial year ending 31 March 2010. In view of the current uncertain economic conditions coupled with cautious consumer spending and more stringent credit evaluation criteria by financial institutions, the Group expects the demand for motor vehicles to slow down further in the current financial year.

Following the Group's rationalisation exercise, all EON's sales and service dealers will be offered the opportunity to migrate to EDAR as their dealers. While EON will still have the Proton business to move forward on, albeit in a different form, the migration coupled with the challenging market environment is expected to impact the profitability of the Group going forward. We are currently initiating cost reduction exercises and measures to mitigate the impact of the rationalisation, including

the repositioning of the Proton dealership business and reorganisation of our network and manpower to suit this new situation. We are also reviewing our business model and exploring new value generating activities to ensure shareholder value is maintained.

Our many initiatives include turning our branches into 3S or 1S+2S centres under one roof and undertaking collision recovery quick service. We will expand the collision repair business by appointing 15 satellite body repairers who will be tasked with carrying out high standards of work back-to-back with insurance companies. We will also move into other automotive-related businesses that can bring value including educational and NGV installation services.

On the sales front, we will continue to drive the Audi and Mitsubishi business and we expect sales of popular Proton vehicles like the New Saga and newly launched Exora to

help us move forward. Also in the pipeline are outreach programmes which will see EON launching out into smaller towns inclusive of FELDA areas to establish customer contact where there are no dealers. We are confident that even as we embark on these initiatives and explore new areas for growth, we are confident of meeting our earnings target and delivering value to our shareholders. In doing so, we trust that all our stakeholders will continue to lend us their steadfast support as we make every effort to face the challenges before us and embrace the opportunities.

**DATUK SYED HISHAM BIN SYED WAZIR**  
MANAGING DIRECTOR

