



Peugeot 307 CC

Chairman's Statement

Overview

The National Automotive Policy ("NAP") announced in March 2006 has changed the competitive framework and pricing structures within the automotive industry. This had the effect of lowering the residual values of used cars which, together with more stringent vehicle financing requirements, led to a sharp fall in the demand for new cars. As a consequence, the total industry volume of new vehicles declined by 11%, while the non-national vehicle segment fell by 14%.

Results

The Group recorded a net profit from ongoing operations of RM4 million for 2006, which included a dividend of RM11.2 million received from the Company's investment in DaimlerChrysler Malaysia. A gain of RM40.7 million on disposal of properties enabled the Group to record a net profit attributable to shareholders of RM45.7 million for the year, compared with RM23.9 million in 2005.

Following a change in accounting policy, the Group now states freehold land and buildings at valuation instead of cost or

cost less depreciation and impairment losses. This has resulted in an increase in shareholders' funds of RM15.1 million. In addition, the adoption of FRS 140 "Investment Property", which requires properties held for investment purposes to be shown at fair value, reduced the shareholders' funds by RM1 million. These changes had no material impact on the net profit attributable to shareholders.

The Company paid a special dividend of RM147 million in October 2006 funded in part from property disposals. Shareholders' funds at 31 December 2006 were RM287 million, or RM2.85 per share, 26% lower than the previous year-end.

The Board is recommending a final dividend of 5 sen per share less tax which, together with the interim dividend of 5 sen per share less tax but excluding the special dividend of RM2.03 per share less tax, would give a total dividend of 10 sen per share less tax for 2006 (2005: 15 sen per share, less tax).

Performance

The NAP was introduced with the purpose of developing the local assembly industry in Malaysia and establishing a



Mazda 3

more transparent environment for the importation of completely-built-up vehicles. The impact of these measures on the luxury segment of the market has been less than that on the lower to middle range segments.

Mercedes-Benz unit sales improved in 2006, but margins were eroded and increased operating costs were incurred on the new facilities. The Group's facilities are being aligned with the Mercedes-Benz Autohaus concept. Ipoh and Petaling Jaya were renovated over the past two years and a further Autohaus in Mutiara Damansara was added in 2006, while Jalan Ampang is planned for 2007. The renovation of the Johor Baru facility and the upgrading of the Ipoh workshop were undertaken in 2006 and the upgrading of the Batu Caves workshop is planned for 2007. By the end of the year, the Group will have largely completed its facility improvement programme.

The weaker markets have caused the Peugeot and Mazda marques to struggle and contributions from both operations

were lower. The showroom facilities of the Mazda franchise in Petaling Jaya and Jalan Ampang have been improved, and a comprehensive service facility in Petaling Jaya was established to provide after-sales service for the Bestari, the local version of the Peugeot 206.

The Group's after-sales operations continue to be enhanced, and new automotive services are being developed to complement existing products. A further restructuring was undertaken to align the work force to the new business environment and the cost of the voluntary separation scheme, estimated at RM1.3 million, was provided for in 2006. The Group will also be improving its IT facilities as part of the restructuring.

In line with its strategy of disposing of low-yielding assets, the Group sold surplus properties in 2006 producing a gain of RM40.7 million.

People

Neville Venter stepped down as a director and member of the Audit Committee and was succeeded by SC Chiew on

15 November 2006. Adam Keswick stepped down as a director and member of the Nomination and Remuneration Committees on 31 March 2007 and was replaced by Ben Keswick on 1 April 2007. I would like to thank both Neville and Adam for their significant contributions to the Group and welcome SC and Ben.

On behalf of the Directors, I wish to thank all the employees of the Company and its subsidiaries for their dedication and loyal service. I also wish to thank all our customers, shareholders and business partners for their support.

Prospects

Market sentiment is not expected to improve materially in 2007. However, the initiatives taken to realign costs, invest in facilities and infrastructure and develop complementary services have positioned the Group to meet the challenges ahead.

Tan Sri Abdul Halim bin Ali
Chairman