

EDARAN OTOMOBIL NASIONAL BERHAD
EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT

Disclosure requirements pursuant to Malaysian Accounting Standards Board No. 26

1. Basis of preparation and Accounting policies

The interim financial report is prepared in accordance with the Malaysian Accounting Standards Board (MASB) No. 26 (Interim Financial Reporting) and paragraph 9.22 of the Listing Requirements of Kuala Lumpur Stock Exchange, and should be read in conjunction with the Group's annual financial report for the year ended 31 December 2002.

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 31 December 2002.

The effect of adopting MASB Standard 25 "Income Tax" has not been reflected in the interim financial report. The effect is not expected to be material on the results of the Group for the period ended 31 March 2003. However, the effect will be incorporated in the annual financial statements for the year ending 31 December 2003.

2. Audit report of the preceding annual financial statements

The audit report of the Group's preceding audited annual financial statements did not contain any qualification.

3. Seasonality or cyclicity of operations

The business operations of the Group are not materially affected by seasonal or cyclical fluctuations.

4. Items of unusual nature, size or incidence

Except as disclosed below, there were no items of unusual nature, size or incidence affecting assets, liabilities, equity, net income or cash flows of the interim financial report:

- (i) The Company's interest in EON Capital Berhad (ECB) which stood at 46.6% as at 31 December 2002 was increased to 50.1% upon completion of the conditional mandatory offer in connection with the listing of ECB and the exercise of the call and put option agreements with RH Development Corporation Sdn Bhd (RHD) and Ceria Alam Sdn Bhd (CA) on 17 February 2003.

5. Changes in estimates

There were no material change in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years that have a material effect on the interim financial statements.

6. Debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities and, no share buy-backs, shares held as treasury shares and resale of treasury shares during the current interim financial period.

7. Dividends paid

There was no dividend paid or declared for the current interim financial period.

8. Segmental reporting

| | 3 months ended | | | |
|------------------------------------|----------------|-----------|-------------------|-----------|
| | Revenue | | Profit Before Tax | |
| | 31/3/2003 | 31/3/2002 | 31/3/2003 | 31/3/2002 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Motor | 1,015,161 | 1,581,151 | 34,075 | 77,708 |
| Financial services | 465,549 | 433,745 | 99,458 | 77,183 |
| | 1,480,710 | 2,014,896 | 133,533 | 154,891 |
| Share of results of associates | - | - | 6,176 | 35,791 |
| Inter-segment revenue eliminations | (3,841) | (6,713) | - | - |
| | 1,476,869 | 2,008,183 | 139,709 | 190,682 |

9. Property, plant and equipment

There is no revaluation of property, plant and equipment brought forward from the previous audited annual financial statements as the Group does not adopt a revaluation policy on its property, plant and equipment.

10. Subsequent events

There has not arisen any events subsequent to the end of the interim period that have not been reflected in the financial statements for the current interim period.

11. Changes in the composition of the group

There was no change in the composition of the Group other than as disclosed in Note 4 above.

12. Commitments and contingent liabilities of the banking group

There were no material commitments and contingent liabilities at the date of this report other than those of the banking group as disclosed below. No material losses are anticipated as these amounts arose in the normal course of business of the banking group in which the group makes various commitments and incurs certain contingent liabilities with legal recourse to its customers.

Risk Weighted Exposures of the banking group are as follows:

| | As at 31/3/2003 | | As at 31/12/2002 | |
|---|------------------|-------------------|------------------|-------------------|
| | Principal Amount | Credit Equivalent | Principal Amount | Credit Equivalent |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Principal Amount | | | | |
| Direct credit substitutes | 362,795 | 362,795 | 367,668 | 367,668 |
| Certain transaction-related contingent items | 478,016 | 239,008 | 433,477 | 216,739 |
| Short term self-liquidating trade-related contingencies | 167,900 | 33,580 | 145,343 | 29,069 |
| Obligations under underwriting agreement | 575,590 | 287,795 | 494,000 | 247,000 |
| Irrevocable commitments to extend credit: | | | | |
| - maturing within one year | 4,381,699 | - | 4,055,722 | - |
| - maturing more than one year | 1,707,084 | 853,542 | 1,873,989 | 936,994 |
| Foreign exchange related contracts (Note 18) | 1,271,602 | 16,872 | 1,538,018 | 19,463 |
| Others | 281,220 | 281,220 | 366,655 | - |
| Total | 9,225,906 | 2,074,812 | 9,274,872 | 1,816,933 |

The credit equivalent is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

Additional disclosure requirements pursuant to paragraph 9.22 of the KLSE Listing Requirements

13. Tax

Tax comprises the following:

Current tax

Share of associates' tax

Under provision in prior years

Transferred from deferred tax

| 3 months ended | | 3 months ended | |
|----------------|-----------|----------------|-----------|
| 31/3/2003 | 31/3/2002 | 31/3/2003 | 31/3/2002 |
| RM'000 | RM'000 | RM'000 | RM'000 |
| 40,639 | 53,739 | 40,639 | 53,739 |
| 2,361 | 12,145 | 2,361 | 12,145 |
| 43,000 | 65,884 | 43,000 | 65,884 |
| - | - | - | - |
| - | - | - | - |
| 43,000 | 65,884 | 43,000 | 65,884 |

The effective tax rate for the current interim financial period was higher than the statutory tax rate due to certain charges and provisions not allowable for tax purposes.

14. Sale of unquoted investments and/or properties

There were no sales of unquoted investments and properties for the current interim financial period.

15. Purchase or disposal of quoted securities

The following particulars on quoted securities (other than securities in existing subsidiaries and associates) do not include any investments undertaken by the financial institutions of the Group:-

| | 3 months ended 31/3/2003 RM'000 | 3 months ended 31/3/2003 RM'000 |
|---|---------------------------------------|---------------------------------------|
| (a) Total purchases and disposal of quoted securities are as follows: | | |
| (i) Total purchase consideration | - | - |
| (ii) Total sale proceeds / redemptions | - | - |
| (iii) Total profit/loss arising from disposals | - | - |
| | | As at 31/3/2003 RM'000 |
| (b) Total investments in quoted securities are as follows: | | |
| (i) At cost | | 328,545 |
| (ii) At carrying value / book value | | 288,044 |
| (iii) At market value | | 261,938 |

Included in the investment in quoted securities is the Company's 13.2% interest in Cycle & Carriage Ltd.

16. Status of corporate proposals

(a) On 8 March 2003, the Company announced the following revisions to the proposed capital repayment exercises :

- (i) Proposed payment of dividends in specie of up to 31,830,668 ordinary shares in Cycle & Carriage Ltd to the shareholders of EON (Proposed Dividends in Specie of CCL shares);
- (ii) Proposed capital repayment of up to 171,762,027 ordinary shares of RM1.00 each in EON Capital Berhad (ECB) at zero subscription cost to the shareholders of EON;
- (iii) Proposed payment of dividends in specie of up to 175,508,442 ordinary shares of RM1.00 each in ECB to the shareholders of EON.

(collectively referred to as the "Proposals"; (ii) and (iii) referred to as the "Proposed Distribution of ECB shares")

On 12 May 2003, the Company announced that ECB has received the approval of Bank Negara Malaysia on 10 May 2003 to commence negotiations with AMMB Holdings Berhad (AHB) for the proposed merger of the ECB banking group with the AHB banking group. On 16 May 2003, the Company further announced that the details of the merger plan are still being discussed and an announcement will be made when appropriate.

On 26 May 2003, the Company announced that the Securities Commission has approved the Proposals.

On 29 May 2003, the Company further announced that the implementation of the Proposed Distribution of ECB shares will be deferred pending the conclusion of the merger discussions with AHB. An appropriate announcement will be made upon completion of the merger discussions. The Company will proceed to implement the Proposed Dividends in Specie of CCL shares which is conditional upon shareholders' approval.

- (b) On 31 March 2003, the Company announced that it has entered into a Memorandum of Agreement (MOA) with Proton Edar Sdn Bhd (Proton Edar), a wholly-owned subsidiary of Perusahaan Otomobil Nasional Berhad (PROTON), on the sale and after sales support of Proton vehicles. Pursuant to the MOA, Proton Edar will appoint EON as a Super Dealer with effect from 1 April 2003 until 31 December 2009 to undertake the sale and after sales support of Proton vehicles in Malaysia. The Super Dealer Agreement is expected to be signed within 3 months from the date of the MOA.

17. Group borrowings and debt securities

| | |
|--|------------------------------|
| | As at 31/3/2003 RM'000 |
| Bankers acceptances (short-term borrowings, unsecured) | 79,848 |
| Bonds (long-term borrowings, secured) | 288,989 |
| | <u>368,837</u> |

On 12 December 2002, a subsidiary issued RM300 million nominal amount of secured fixed rate bonds at a discount in three tranches:

- 5.25% RM50 million nominal value secured fixed rate 3 year bonds, maturing on 12 December 2005;
- 6.00% RM100 million nominal value secured fixed rate 5 year bonds, maturing on 12 December 2007;
and
- 6.75% RM150 million nominal value secured fixed rate 7 year bonds, maturing on 12 December 2009.

18. Financial instruments with off balance sheet risk of the banking group as at 31 March 2003

Value of contracts of financial instruments of the banking group with off-balance sheet risk classified by remaining periods to maturity or next repricing date (whichever is earlier) are as follows:

| | Principal Amount | 1 month or less | > 1 - 3 months | > 3 - 6 months | > 6 - 12 months |
|------------------------------------|------------------|-----------------|----------------|----------------|-----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Foreign exchange related contracts | | | | | |
| - Forward | 1,271,602 | 542,730 | 162,156 | 537,975 | 28,741 |

The banking group does not have any interest rate, equity and commodity related contracts. Foreign exchange related contracts are subject to market risk and credit risk.

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 March 2003, the amount of contracts which were not hedged and, hence, exposed to market risk was RM3,314,380 (31 December 2002 : RM4,582,080).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the banking group has a gain position. As at 31 March 2003, the amount of credit risk, measured in terms of the cost to replace the profitable contracts was RM2,807,469 (31 December 2002 : RM3,218,403). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Accounting policy on foreign exchange related contracts

Open forward exchange contracts are valued at forward rates as at balance sheet date, applicable to their respective dates of maturity and unrealised gains or losses are recognised in the income statement in the period in which they arise.

19. Material litigation

Save as disclosed below, the Group does not have any material litigation which would have a material adverse effect on the financial position of the Group:-

- (i) A Writ of Summons was filed on 3 January 2000 by a guarantor against Oriental Bank Berhad (OBB) for RM135.9 million for wrongful and inequitable enlistment of his name in the Credit Tip-Off Services by OBB. This legal suit has been transferred to EBB pursuant to a vesting order in respect of the merger of the businesses of OBB and EBB.

The submission that has been fixed on 8 April 2003 was subsequently postponed to 26 April 2003. On 26 April 2003, the court heard the submissions and fixed the decision on 19 May 2003. On 19 May 2003, the court dismissed the plaintiff's action with costs on the grounds that the plaintiff did not have a valid cause of action and failed to prove his loss.

- (ii) A Writ of Summons was filed by Malaysian International Merchant Bankers Berhad (MIMB) on 17 December 1998 against a borrower and three guarantors for RM21.4 million being outstanding banking facilities granted plus interest thereon. On 10 April 2000, the High Court granted the order to the borrower to amend its Statement of Defence and to add the counterclaim for RM70.2 million against MIMB for wrongfully terminating the credit facilities of the borrower.

Case Management fixed on 5 March 2003 has been adjourned to 9 June 2003.

The solicitors acting for MIMB are of the opinion that the suit is defensible.

20. Profit before tax for the current quarter compared to the immediate preceding quarter

The Group's profit before tax of RM139.7 million for the current quarter was lower than the preceding quarter by 46.6%. The motor sector's earnings were down due to lower new vehicle sales of 23,621 units compared to 27,022 units sold in the preceding quarter as well as lower margins. The banking and financial services sector also recorded lower earnings resulting from the write-back of general provisions for doubtful debts in the preceding quarter.

In addition, the Group's pre-tax profits for the preceding quarter were higher due to the inclusion of the Group's share of Cycle & Carriage Ltd group's earnings up to November 2002.

21. Review of performance for the current interim financial period compared to the corresponding period in the preceding year

The Group recorded a profit before tax of RM139.7 million on a Group revenue of RM1,476.9 million in the first quarter of 2003, lower by 26.7% and 26.5% respectively compared to the corresponding period in the preceding year. This was due mainly to weaker contributions from the motor sector arising from lower sales volume and margins, and the effect of the cessation of equity accounting for the Group's share of Cycle & Carriage Ltd group's results following the divestment of its interest in November 2002.

Motor

Total industry volume for passenger cars for the first three months of the year fell by about 8.3% to 81,328 units. The Company's new car sales registered a decline from 34,536 units sold in the first 3 months of 2002 to 23,621 units in 2003 due to increased competition from the national and non-national marques. Accordingly, contributions from the Group's motor operations of RM34.1 million was 56.1% lower than the same period in 2002.

Financial services

The Group's financial services sector registered higher pre-tax profits of RM99.5 million, up 28.8% from 2002 due mainly to lower net interest suspended.

22. Prospects

The Malaysian Institute of Economic Research had recently revised its economic growth forecast for Malaysia for 2003 to 3.7 per cent, down from the 5.7 per cent projected earlier in view of the effects of the Iraq war and the fallout from the SARS outbreak.

Mixed consumer sentiment in anticipation of AFTA, increased competition and global uncertainties will continue to impact the automotive market and put pressure on sales volume and margins. The Board expects the remaining period of the year to be challenging for the motor sector in view of the difficult trading conditions in which the Company operates. Accordingly, contributions from the motor sector are expected to be lower in the remaining period of the year.

In the banking and financial services sector, competition is expected to remain intense in the current year and interest margins are expected to come under pressure. The banking group is cautiously optimistic of achieving a moderate growth in 2003.

23. Profit forecast / profit guarantee

The Group neither made any profit forecast nor issued any profit guarantee.

24. Dividends

No interim dividend is recommended for the current interim financial period.

25. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

| | 3 months ended | | 3 months ended | |
|---|----------------|-------------|----------------|-------------|
| | 31/3/2003 | 31/3/2002 | 31/3/2003 | 31/3/2002 |
| Net profit attributable to shareholders (RM'000) | 62,224 | 105,980 | 62,224 | 105,980 |
| Weighted average number of ordinary shares in issue | 231,422,823 | 228,743,490 | 231,422,823 | 228,743,490 |
| Basic earnings per share (sen) | 26.89 | 46.33 | 26.89 | 46.33 |

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the diluted net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

| | 3 months ended | | 3 months ended | |
|--|----------------|-------------|----------------|-------------|
| | 31/3/2003 | 31/3/2002 | 31/3/2003 | 31/3/2002 |
| Net profit attributable to shareholders (RM'000) | 62,224 | 105,980 | 62,224 | 105,980 |
| Minority interests' share of net profits of a subsidiary | 0 | (1,156) | 0 | (1,156) |
| Diluted net profit attributable to shareholders | 62,224 | 104,824 | 62,224 | 104,824 |
| Weighted average number of ordinary shares in issue | 231,422,823 | 228,743,490 | 231,422,823 | 228,743,490 |
| Diluted earnings per share (sen) | 26.89 | 45.83 | 26.89 | 45.83 |

Diluted net profit attributable to shareholders has been adjusted for the increase in minority interests' percentage share of a subsidiary's net profits for the period assuming full conversion of share options under the subsidiary's ESOS at the beginning of the period.

The weighted average number of ordinary shares in issue is not adjusted as the conversion of share options under the Company's ESOS would be anti-dilutive.

Other disclosures**26. Notes to the balance sheet**

| | As At 31/3/2003 RM'000 | As At 31/12/2002 RM'000 |
|--|------------------------------|-------------------------------|
| (i) Investments | | |
| Money market instruments | 2,837,083 | 3,107,712 |
| Non money market instruments | <u>1,797,677</u> | <u>1,547,183</u> |
| | <u>4,634,760</u> | <u>4,654,895</u> |
| The maturity structure of the money market instruments are as follows: | | |
| Maturity within one year | 523,214 | 866,531 |
| Maturity more than one year | <u>2,313,869</u> | <u>2,241,181</u> |
| | <u>2,837,083</u> | <u>3,107,712</u> |
| (ii) Loans, advances and financing | | |
| Gross loans, advances and financing | 22,264,261 | 22,061,295 |
| Less : Allowance for bad and doubtful debts and financing, and interest in suspense | <u>(1,508,393)</u> | <u>(1,487,630)</u> |
| Net loans, advances and financing | <u>20,755,868</u> | <u>20,573,665</u> |
| The maturity structure of gross loans, advances and financing are as follows: | | |
| Maturity within one year | 6,592,384 | 6,692,893 |
| Maturity more than one year | <u>15,671,877</u> | <u>15,368,402</u> |
| | <u>22,264,261</u> | <u>22,061,295</u> |
| (iii) Receivables | | |
| Trade receivables | 84,223 | 106,824 |
| Other receivables, deposits and prepayments: | | |
| - non-banking group | 22,085 | 21,503 |
| - banking group | <u>931,205</u> | <u>1,047,264</u> |
| | <u>1,037,513</u> | <u>1,175,591</u> |
| (iv) Deposits from customers | | |
| Demand deposits and savings deposits | 3,378,886 | 3,493,528 |
| Fixed deposits | <u>16,161,609</u> | <u>14,725,826</u> |
| | <u>19,540,495</u> | <u>18,219,354</u> |
| The maturity structure of fixed deposits are as follows: | | |
| Maturity within one year | 15,140,172 | 13,574,278 |
| Maturity more than one year | <u>1,021,437</u> | <u>1,151,548</u> |
| | <u>16,161,609</u> | <u>14,725,826</u> |
| (v) Payables | | |
| Trade payables | 158,402 | 187,729 |
| Other payables | | |
| - non-banking group | 144,133 | 200,962 |
| - banking group | 417,627 | 383,083 |
| Amount due to Cagamas Berhad | <u>671,913</u> | <u>841,981</u> |
| | <u>1,392,075</u> | <u>1,613,755</u> |

BY ORDER OF THE BOARD
MUSA BIN HAJI MOHD DAHAN
Company Secretary

