

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 except for the adoption of new MASB Standards applicable to the Group with effect from 1 January 2003.

The adoption of these new standards have no material effects on the interim financial statements for the period ended 30 June 2003 except for the effect of applying the MASB Standard No. 25 "Income Tax". In compliance with MASB 25, the Group changed its accounting policy in respect of the measurement and recognition of deferred tax assets and/or liabilities. The change in accounting policy has been applied retrospectively.

The effects of the change on the Group's prior year/periods financial statements are as follows :

	As previously reported RM '000	Adjustments RM '000	As restated RM '000
<u>As at 31 December 2002</u>			
Deferred tax assets	-	144,393	144,393
Deferred tax liabilities	3,220	657	3,877
Retained earnings	1,265,092	70,877	1,335,969
Minority interests	987,846	72,859	1,060,705
<u>As at 31 March 2003</u>			
Deferred tax assets	-	144,393	144,393
Deferred tax liabilities	3,057	657	3,714
Retained earnings	1,327,109	75,665	1,402,774
Minority interests	957,412	68,071	1,025,483
<u>For the quarter ended 30 June 2002</u>			
- Net profit for the quarter	119,489	13,766	133,255
- Earnings per share (sen)			
- Basic	52.11	6.00	58.11
- Diluted	51.58	5.71	57.30
<u>For the period ended 30 June 2002</u>			
- Net profit for the period	225,469	13,766	239,235
- Earnings per share (sen)			
- Basic	98.44	6.01	104.45
- Diluted	97.45	5.68	103.14

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

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

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

During the current interim financial period, a total of 719,000 new ordinary shares were issued by virtue of the exercise of the Employee's Share Option Scheme.

Other than the above, 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

The final dividend of 40 sen per share, less income tax at 28% amounting to RM66,650,000 for the financial year ended 31 December 2002 was paid on 12 June 2003.

8. Segmental reporting

	6 months ended			
	Revenue		Profit Before Tax	
	30/6/2003	30/6/2002	30/6/2003	30/6/2002
	RM'000	RM'000	RM'000	RM'000
Motor	1,820,114	3,191,470	66,390	165,218
Financial services	935,309	881,560	203,207	152,788
	2,755,423	4,073,030	269,597	318,006
Share of results of associates	-	-	11,154	117,718
Inter-segment revenue eliminations	(6,279)	(13,567)	-	-
	2,749,144	4,059,463	280,751	435,724

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

Except as disclosed in Note 24(a), 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 30/6/2003		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	336,404	336,404	367,668	367,668
Certain transaction-related contingent items	495,576	247,788	433,477	216,739
Short term self-liquidating trade-related contingencies	154,550	30,910	145,343	29,069
Obligations under underwriting agreement	626,104	313,052	494,000	247,000
Irrevocable commitments to extend credit:				
- maturing within one year	4,445,659	-	4,055,722	-
- maturing more than one year	1,915,611	957,806	1,873,989	936,994
Foreign exchange related contracts	1,894,449	28,075	1,538,018	19,463
Others	234,580	-	366,655	-
Total	10,102,933	1,914,035	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

	3 months ended		6 months ended	
	30/6/2003	30/6/2002 (As restated)	30/6/2003	30/6/2002 (As restated)
	RM'000	RM'000	RM'000	RM'000
Tax comprises the following:				
Current tax	48,254	62,299	88,893	116,038
Share of associates' tax	1,143	45,982	3,504	58,127
Transferred from deferred tax	(4,575)	(27,631)	(4,575)	(27,631)
	44,822	80,650	87,822	146,534
Over provision in prior years	(6,345)	-	(6,345)	-
	38,477	80,650	81,477	146,534

The effective tax rate of the Group 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 30/6/2003 RM'000	6 months ended 30/6/2003 RM'000
(a) Total purchases and disposal of quoted securities are as follows:		
(i) Total purchase consideration	-	-
(ii) Total sale proceeds / redemptions	<u>6,743</u>	<u>6,743</u>
(iii) Total profit/loss arising from disposals	<u>1,185</u>	<u>1,185</u>
		As at 30/6/2003 RM'000
(b) Total investments in quoted securities are as follows:		
(i) At cost		<u>322,186</u>
(ii) At carrying value / book value		<u>282,486</u>
(iii) At market value		<u>340,268</u>

Included in the investment in quoted securities is the Company's residual interest in Cycle & Carriage Ltd which had been subsequently distributed to the shareholders and disposed pursuant to the Dividends in Specie of CCL shares as disclosed in Note 16 (a).

16. Status of corporate proposals

- (a) On 18 June 2003, an extraordinary general meeting was held and shareholders approved the 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). The implementation of the Proposed Dividends in Specie of CCL shares was completed on 9 August 2003.
- (b) On 25 June 2003, the Company announced that ECB has mutually agreed with AMMB Holdings Berhad (AHB) to terminate the discussions on the proposed merger of the ECB group with the AHB group with immediate effect.
- (c) On 10 July 2003, the Company announced that pending the finalisation of the importer and distribution agreements by its wholly-owned subsidiary, Euromobil Sdn Bhd, the Letter of Intent with Volkswagen AG and the Letter of Appointment with AUDI AG have been extended to 31 December 2003 and 30 September 2003 respectively.
- (d) On 5 August 2003, the Company further announced that negotiations on the Super Dealership Agreement between Proton Edar Sdn Bhd and EON are still ongoing and an appropriate announcement will be made once the Agreement is concluded.

17. Group borrowings and debt securities

	As at 30/6/2003 RM'000
Bonds (long-term borrowings, secured)	<u>289,506</u>

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

- (a) 5.25% RM50 million nominal value secured fixed rate 3 year bonds, maturing on 12 December 2005;
- (b) 6.00% RM100 million nominal value secured fixed rate 5 year bonds, maturing on 12 December 2007; and
- (c) 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 20 August 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	2,373,673	771,690	697,196	845,536	59,251

The banking group does not have any interest rate, equity and commodity related contracts as at 20 August 2003. 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 20 August 2003, the amount of contracts of the Group which were not hedged and, hence, exposed to market risk was RM16,333,933 (31 December 2002: RM4,852,080).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Group has a gain position. As at 20 August 2003, the amount of credit risk of the Group, measured in terms of the cost to replace the profitable contracts was RM5,408,966 (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 for 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.

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. The plaintiff has filed a Notice of Appeal against the Court's decision.

- (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.

Further Case Management has been fixed on 10 November 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

There is no material change in the profit before tax for the current quarter compared to the immediate preceding quarter.

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 RM280.8 million on a Group revenue of RM2,749.1 million for the first half year of 2003, lower by 35.6% and 32.3% 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 lower 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 . These were partly offset by higher earnings from the financial services sector.

Motor

Total industry volume (TIV) for passenger cars for the first half year fell by 11.8% to 161,265 units amid weak consumer sentiments. TIV for the Proton marque fell by 24.8% to 85,430 units during the first six months of 2003 from 113,649 units recorded in the first half year of 2002 whilst EON' s sales volume fell from 70,765 units to 42,638 units.

Proton' s dominant market share has been eroded by the aggressive launching of new models with competitive pricing by the non-national marques. The reduction in EON' s sales volume was also attributable to the network expansion by Proton' s other distributor as well as supply constraints of certain models. Accordingly, earnings from the Group' s motor operations of RM66.4 million was 59.8% lower than the same period in 2002.

Financial services

The Group' s financial services sector registered higher pre-tax profits of RM203.2 million, up 33.0% from 2002 due mainly to lower net interest suspended and lower provision for loan losses partly offset by financing cost of bonds issued by ECB in Dec 2002.

22. Prospects

The Malaysian Institute of Economic Research has recently revised its economic growth forecast for Malaysia for 2003 to 4.3 per cent, up from 3.7 per cent projected earlier due to the positive impact of the economic stimulus package introduced by the Government to revive the economy.

However, mixed consumer sentiments in anticipation of AFTA and increasing competition will continue to impact the automotive market and put pressure on sales volume and margins. In addition, the aggressive introduction of new models with competitive pricing by the non-national marques following the removal of the price control by the government has and will continue to adversely affect the Proton marque. 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 half of the year.

In the financial services sector, competition is expected to remain intense in the current year and interest margin will continue to come under pressure. Barring unforeseen circumstances, the banking group is cautiously optimistic of achieving a satisfactory growth in 2003.

23. Profit forecast / profit guarantee

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

24. Dividends

(a) Dividends in Specie of CCL shares

The distribution of the Dividends in Specie of CCL shares to depositors registered on the Record of Depositors at the close of business on 11 July 2003 was completed on 9 August 2003.

Pursuant to the Dividends in Specie of CCL shares, shareholders of EON who hold more than 50,000 ordinary shares of RM1.00 each in EON ("EON Shares") received their entitlement in the form of CCL shares on the basis of 127 CCL shares for every 1,000 EON Shares held.

EON shareholders who hold up to and including 50,000 EON Shares received cash in lieu of their entitlement value of CCL shares ("Cash Entitlement"). The quantum of the Cash Entitlement is RM1.9582 per EON share, less income tax of 28%. The calculation of the Cash Entitlement was based on the five day weighted average market price of CCL shares traded on the Singapore Exchange Securities Trading Limited as at 8 August 2003 of S\$5.1851 per share and at the exchange rate of S\$1.00 to RM2.1410.

(b) Interim dividend

The Board is pleased to declare an interim dividend of 6 sen per share less 28% tax (2002-25 sen per share less 28% tax) and a special interim dividend of 14 sen per share less 28% tax in respect of the financial year ending 31 December 2003 which are proposed to be paid on 10 October 2003. The special interim dividend is declared from the net proceeds of the disposal of the residual shares in CCL subsequent to the dividend in specie of the CCL shares.

NOTICE IS HEREBY GIVEN that the Interim Dividend and the Special Interim Dividend of 6 sen per share and 14 sen per share respectively less 28% tax will be payable on 10 October 2003 to depositors registered on the Record of Depositors at the close of business on 26 September 2003.

A Depositor shall qualify for entitlement only in respect of:

(a) Shares transferred to the Depositor's Securities Account on or before 4.00pm on 26 September 2003 in respect of ordinary transfers.

(b) Shares bought on the Kuala Lumpur Stock Exchange on a cum entitlement basis according to the Rules of the Kuala Lumpur Stock Exchange.

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		6 months ended	
	30/6/2003	30/6/2002 (As restated)	30/6/2003	30/6/2002 (As restated)
Net profit attributable to shareholders (RM'000)	64,934	133,255	127,158	239,235
Weighted average number of ordinary shares in issue	231,662,490	229,323,156	231,542,656	229,033,323
Basic earnings per share (sen)	28.03	58.11	54.92	104.45

(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		6 months ended	
	30/6/2003	30/6/2002 (As restated)	30/6/2003	30/6/2002 (As restated)
Net profit attributable to shareholders (RM'000)	64,934	133,255	127,158	239,235
Minority interests' share of net profits of a subsidiary	0	(1,860)	0	(3,015)
Diluted net profit attributable to shareholders	64,934	131,395	127,158	236,220
Weighted average number of ordinary shares in issue	231,662,490	229,323,156	231,542,656	229,033,323
Diluted earnings per share (sen)	28.03	57.30	54.92	103.14

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 30/6/2003 RM'000	As At 31/12/2002 RM'000
(i) Investments		
Money market instruments	3,598,069	3,107,712
Non money market instruments	<u>1,411,109</u>	<u>1,547,183</u>
	<u>5,009,178</u>	<u>4,654,895</u>
The maturity structure of the money market instruments are as follows:		
Maturity within one year	1,357,894	866,531
Maturity more than one year	<u>2,240,175</u>	<u>2,241,181</u>
	<u>3,598,069</u>	<u>3,107,712</u>
(ii) Loans, advances and financing		
Gross loans, advances and financing	22,626,394	22,061,295
Less : Allowance for bad and doubtful debts and financing, and interest in suspense	<u>(1,529,875)</u>	<u>(1,487,630)</u>
Net loans, advances and financing	<u>21,096,519</u>	<u>20,573,665</u>
	-	-
The maturity structure of gross loans, advances and financing are as follows:		
Maturity within one year	6,755,243	6,692,893
Maturity more than one year	<u>15,871,151</u>	<u>15,368,402</u>
	<u>22,626,394</u>	<u>22,061,295</u>
(iii) Receivables		
Trade receivables	75,994	106,824
Other receivables, deposits and prepayments:		
- non-banking group	60,084	21,503
- banking group	<u>912,405</u>	<u>1,047,264</u>
	<u>1,048,483</u>	<u>1,175,591</u>
	-	-
(iv) Deposits from customers		
Demand deposits and savings deposits	3,430,627	3,493,528
Fixed deposits	<u>16,486,275</u>	<u>14,725,826</u>
	<u>19,916,902</u>	<u>18,219,354</u>
	-	-
The maturity structure of fixed deposits are as follows:		
Maturity within one year	15,395,030	13,574,278
Maturity more than one year	<u>1,091,245</u>	<u>1,151,548</u>
	<u>16,486,275</u>	<u>14,725,826</u>
(v) Payables		
Trade payables	178,769	187,729
Other payables		
- non-banking group	73,232	200,962
- banking group	416,233	383,083
Amount due to Cagamas Berhad	<u>617,575</u>	<u>841,981</u>
	<u>1,285,809</u>	<u>1,613,755</u>
	-	-

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

Shah Alam, 27 August 2003