

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND
QUARTER ENDED 31 DECEMBER 2002

The figures have not been audited

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE QUARTER ENDED 31
DECEMBER 2002

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2002 RM'000	31/12/2001 RM'000	31/12/2002 RM'000	31/12/2001 RM'000
Revenue	478,813	456,816	995,579	937,420
Operating Expenses	(454,562)	(452,242)	(935,528)	(924,584)
Other Operating Income	8,559	8,345	13,957	19,007
Profit from Operations	32,810	12,919	74,008	31,843
Finance Costs	(27,460)	(29,607)*	(55,267)	(64,652)*
Share of Profit of Associated Companies	937	(1,294)	7,814	(26,966)
Profit/(Loss) Before Taxation	6,287	(17,982)	26,555	(59,775)
Taxation	(9,196)	(6,641)	(19,178)	(15,145)
Profit/(Loss) After Taxation	(2,909)	(24,623)	7,377	(74,920)
Minority Interest	(3,389)	2,915	(12,364)	8,204
Net Profit/(Loss) for the Period	(6,298)	(21,708)	(4,987)	(66,716)
Earnings/(Loss) Per Share (sen) :-				
(a) Basic	(2.89)	(9.97)	(2.29)	(30.63)
(b) Fully diluted	N/A	N/A	N/A	N/A

* Note : Finance Costs for Preceding Year has been adjusted to reflect Gross Finance Costs as opposed to Net Finance Costs as announced last year.

The Condensed Consolidated Income Statement should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2002.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2002

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CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002

	As at end of current quarter 31/12/2002 RM'000	As at preceding financial year end 30/06/2002 RM'000
Property, Plant and Equipment	1,492,362	1,524,119
Investment in Associated Companies	230,159	160,003
Other Investments	497,197	497,197
Intangible Assets	494,106	495,120
Deferred Tax Assets	10,000	10,000
Current Assets		
Property assets	33,814	36,432
Inventories	243,640	216,802
Debtors	609,363	628,699
Other investments	9,365	500
Cash	293,019	473,620
	<u>1,189,201</u>	<u>1,356,053</u>
Current Liabilities		
Trade and Other Payables	642,404	691,242
Overdraft and Short Term Borrowings	617,762	694,750
Taxation	13,634	32,203
	<u>1,273,800</u>	<u>1,418,195</u>
Net Current Liabilities	<u>(84,599)</u>	<u>(62,142)</u>
	<u>2,639,225</u>	<u>2,624,297</u>
Share Capital	112,564	112,564
Reserves	544,053	546,834
Irredeemable Convertible Unsecured Loan Stocks 2002/2007 ("ICULS")	208,153	208,153
Treasury Shares	(59,835)	(59,835)
Shareholders Funds	<u>804,935</u>	<u>807,716</u>
Minority Interest	557,214	562,569
Long Term Liabilities		
Borrowings	385,531	373,481
EuroConvertible Bonds	279,224	279,224
Redeemable Bonds	500,000	500,000
Other Deferred Liabilities	112,321	101,307
	<u>1,277,076</u>	<u>1,254,012</u>
	<u>2,639,225</u>	<u>2,624,297</u>
Net Tangible Assets Per Share (sen)	47	48

The Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2002.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2002

	Current Year- To-Date
	31/12/2002 RM'000
Profit Before Taxation	26,555
Adjustment for:-	
Depreciation and amortisation	135,243
Share of profit of associated companies	(7,814)
Net financing cost	44,527
Non-cash items	3,704
Operating profit before changes in working capital	<u>202,215</u>
Changes in working capital	
Net change in current assets	(4,884)
Net change in current liabilities	(48,838)
Income tax paid	(28,006)
Net financing cost paid	<u>(44,527)</u>
Net cash flows from operating activities	<u>75,960</u>
Investing Activities	
Equity investments	(69,775)
Other investments	<u>(102,471)</u>
Net cash flows used in investing activities	<u>(172,246)</u>
Financing Activities	
Dividend paid to minority shareholders	(19,377)
Net repayment of bank borrowings	<u>(12,127)</u>
Net cash flows used in financing activities	<u>(31,504)</u>
Net Change in Cash and Cash Equivalents	(127,790)
Cash & Cash Equivalent at Beginning of Year	284,516
Cash & Cash Equivalent at End of Period	<u>156,726</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2002.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2002

	Share Capital	Share Premium	Other Reserves	Retained profits	Irredeemable Convertible Unsecured Loan Stocks	Treasury Shares	Total
	RM'000			RM'000	RM'000	RM'000	RM'000
Current year-to-date ended 31 December 2002							
Balance at beginning of year	112,564	289,396	12,181	243,817	-	(59,835)	598,123
MASB 24 Reclassification	-	-	-	-	208,153	-	208,153
MASB 25 Adjustment	-	-	-	1,440	-	-	1,440
	112,564	289,396	12,181	245,257	208,153	(59,835)	807,716
Net Profit for the period	-	-	-	(4,987)	-	-	(4,987)
Foreign currency translation reserves	-	-	2,206	-	-	-	2,206
Balance at end of period	112,564	289,396	14,387	240,270	208,153	(59,835)	804,935

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2002.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2002

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1. Accounting policies and methods of computation

The interim financial report has been prepared in accordance with MASB 26 “Interim Financial Reporting” and should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2002.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the financial year ended 30 June 2002 except for the adoption of MASB 22 “Segmental Reporting”, MASB 24 “Financial Instruments: Disclosure and Presentation” and MASB 25 “Income Tax”.

The adoption of MASB 22 does not have effect on the financial results of the Group for the financial year-to-date nor the shareholders’ funds of the Group.

The effects of the adoption of MASB 24 on the Group’s financial statements are as follows:-

Condensed Consolidated Balance Sheet	As Previously Reported	MASB 24 Reclassification	As Restated
	RM’000	RM’000	RM’000
As At 30 June 2002			
Shareholders Funds	598,123	208,153	806,276
Irredeemable Convertible Unsecured Loan Stocks	208,153	(208,153)	-

The effects of the adoption of MASB 25 on the Group’s financial statements are as follows:-

Condensed Consolidated Balance Sheet	As Previously Reported	MASB 25 Adjustment	As Restated
	RM’000	RM’000	RM’000
As At 30 June 2002			
Deferred Tax Assets	-	10,000	10,000
Other Deferred Liabilities	81,307	20,000	101,307
Retained Profits	243,817	1,440	245,257
Minority interest	574,009	(11,440)	562,569

2. Qualification of audit report of the preceding annual financial statements

There were no qualification on audit report of the preceding annual financial statements.

3. Seasonality or cyclicity of interim operations

The Group’s interim operations are not affected materially by any seasonal or cyclical factors for the quarter under review.

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The figures have not been audited

4. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.

5. Changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years

There were no changes in estimates of amounts reported in the prior interim period of the current financial year nor in the prior financial years.

6. Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

There were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial year-to-date other than as mentioned below:-

- (i) The Executive Share Option Scheme (“ESOS”) of the Company was implemented with effect from 24 December 1999. During the current financial year-to-date, there were no ordinary shares of RM0.50 each issued and allotted pursuant to the exercise of the ESOS.
- (ii) There was no share buy back from the open market during the current financial year-to-date. The total number of shares bought back as at 31 December 2002 was 7,344,000 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.
- (iii) The Company had, on 28 June 2002, allotted 208,152,780 nominal value of ICULS and the same were listed on the Kuala Lumpur Stock Exchange on 10 July 2002. During the current financial year-to-date, there were no ordinary shares of RM0.50 each issued and allotted pursuant to the conversion of the ICULS.

7. Dividends paid

There were no dividend paid during the financial year-to-date.

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The figures have not been audited

8. Segmental Reporting

The Group's segmental report for the financial year-to-date are as follows:-

	Semi-conductor	Motorcycles	Building Materials	Packaging	Investment holding & others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	430,271	177,173	241,610	107,765	38,760	995,579
Results						
Profit from operations	33,884	6,245	27,856	11,814	(5,791)	74,008
Finance Costs						(55,267)
Share of Profit of Associated Companies						7,814
Profit Before Taxation						26,555
Taxation						(19,178)
Profit After Taxation						7,377
Minority Interest						(12,364)
Net loss for the Period						(4,987)

9. Valuations of property, plant and equipment

The valuation of property, plant and equipment have been brought forward without any amendments from the previous annual financial statements.

10. Material Events Not Reflected In The Financial Statements

There are no material subsequent events to be disclosed as at the date of this report.

11. Changes in the composition of the Group

There were no changes in the composition of the Group during the current quarter, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations other than as mentioned below:-

- (i) Joint Steel Works Sdn Bhd, a wholly-owned subsidiary, had been placed under member's voluntary liquidation pursuant to Section 254(1)(b) of the Companies Act, 1965. The liquidation is currently pending tax clearance from the Inland Revenue Board.
- (ii) Hong Leong Maruken Sdn Bhd, a 70% subsidiary, had been placed under members' voluntary liquidation pursuant to Section 254(1)(b) of the Companies Act, 1965. The liquidation is currently pending tax clearance from the Inland Revenue Board.

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- (iii) MZ Motorrad-Und Zweiradwerk GmbH, a wholly-owned subsidiary, had on 22 November 2002 entered into a stock sales agreement with MZ Engineering GmbH, for the acquisition of 200 shares of capital stock constituting 100% of the stock inventory and the entire issued and paid-up capital stock of MuZ North America Inc for a total cash consideration of USD105,650 (equivalent to approximately RM401,470) (“Acquisition”). The acquisition was completed on 20 December 2002.

12. Contingent liabilities or contingent assets

There are no contingent liabilities or contingent assets to be disclosed as at the date of this report.

13. Review of Performance

For the current quarter under review, the Group recorded a profit before tax of RM6.3 million as compared with a loss before tax of RM18.0 million for the preceding year's corresponding quarter. The improvement is attributable mainly to the improvement in the semiconductor sector. The losses for the preceding year's corresponding quarter was inclusive of an exceptional loss of RM9.7 million on the disposal of a subsidiary company.

14. Material changes in profit before taxation

For the quarter under review, the Group recorded a profit before tax (“PBT”) of RM6.3 million as compared with a profit before tax of RM20.3 million for the preceding quarter. The semiconductor sector performed better in the current financial year-to-date as compared with the previous corresponding period. However, the semiconductor sector's performance for the quarter under review is lower than the previous quarter. In addition, the Group has lower contribution from an associated company.

15. Prospects

Barring any unforeseen circumstances, the Board expects the Group to perform better than the last financial year.

16. Profit forecast / profit guaranteed

This note is not applicable.

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17. Taxation

Taxation comprise :-

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2002 RM'000	31/12/2001 RM'000	31/12/2002 RM'000	31/12/2001 RM'000
Taxation				
- Current Year	4,555	2,207	9,513	6,355
- Under/(over) provision in prior year	(136)	110	(76)	-
Deferred taxation				
- Current Year	5,525	4,752	10,623	9,504
- Over provision in prior years	(150)	(429)	(150)	(715)
Share of associated companies' taxation	(598)	1	(732)	1
	<u>9,196</u>	<u>6,641</u>	<u>19,178</u>	<u>15,145</u>

The Group's effective tax rate is higher than the statutory tax rate due to the non-availability of group relief where tax losses of certain subsidiary companies cannot be set-off against the taxable income of other subsidiary companies.

18. Sale of unquoted investments and/or properties

There were no sales of unquoted investments and/or properties for the current quarter and financial year-to-date.

19. Quoted securities

(a) There were no purchases or disposals of quoted securities (other than securities in existing subsidiaries and associated companies) for the current quarter and financial year-to-date other than as mentioned below:-

	Current Year Quarter	Current Financial Year-To-date
	31/12/2002 RM'000	31/12/2002 RM'000
(i) Purchase consideration	3,806	8,168

(b) Particulars of investments in quoted securities as at 31 December 2002 :-

	RM'000
At cost :	
- Associated Company	565,339
- Others	82,461
	<u>647,800</u>

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At book value :	
- Associated Company	182,250
- Others	83,158
	<u>265,408</u>
At market value :	
- Associated Company	146,070
- Others	98,976
	<u>245,046</u>

20. Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this report.

21. Group's borrowings and debt securities

Particulars of the Group's borrowings and debts securities as at 31 December 2002 are as follows:-

<u>Borrowings</u>	RM'000
(i) Unsecured short term borrowings	617,762
(ii) Unsecured long term borrowings	1,164,755
	<u>1,782,517</u>

The above include borrowing denominated in foreign currency as follows :-

USD borrowings	273,230
Euro borrowings	40,445

Debt securities

(iii) ICULS 2002/2007	<u>208,153</u>
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22. Financial Instruments with Off Balance Sheet Risk

Derivative financial instruments are used to reduce exposure to fluctuations in foreign exchange rates and interest rates. While these are subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

Financial instruments are viewed as risk management tools by the Group and are not used for trading or speculative purposes.

The Off Balance Sheet Risk Financial Instruments balance as at 19 February 2003 are as follow :

	Contract amount RM'000
Foreign exchange forward contracts	97,475

The above contacts are maturing within a period of 3 months.

Gain and losses on foreign exchange forward contracts are recognised as income and expense upon realisation.

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23. Changes in Material Litigation

There is no material litigation as at the date of this report.

24. Dividend

The Board has declared an gross interim dividend of 2.5 sen per share less tax for the quarter ended 31 December 2002 of the financial year 2002/2003 (6 months ended 31 December 2001 of the financial year 2001/2002 : 3.5 sen per share tax exempt and 5.0 sen per share less tax) to be paid on 31 March 2003 to holders of ordinary shares whose names appear in the Record of Depositors at the close of business on 19 March 2003.

This is to inform that a Depositor shall qualify for the entitlement only in respect of :-

- (a) Shares transferred into the Depositor's securities account before 4.00 p.m. on 19 March 2003 in respect of ordinary transfers; and
- (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

Basic earnings per ordinary share

The basic earnings per ordinary share is calculated by dividing the net loss attributable to ordinary shareholders of RM6,298,000 by the number of ordinary shares outstanding during the quarter of 217,784,500.

Diluted earnings per ordinary share

The Group has no dilution in its earnings per ordinary share as the fair value of the ordinary shares for the quarter is lower than the exercise price of the options. Therefore, no consideration for adjustment in the form of increase in the number of shares was used in calculating the potential dilution of its earnings per share.

By Order of the Board
Hong Leong Industries Berhad

Queek Chai Choo
Joanne Leong Wei Yin
Company Secretaries

Kuala Lumpur
25 February 2003