Chairman's Statement

On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report and Financial Statements of the Group and of the Company for the financial year ended 30 June 2002.

Financial Review

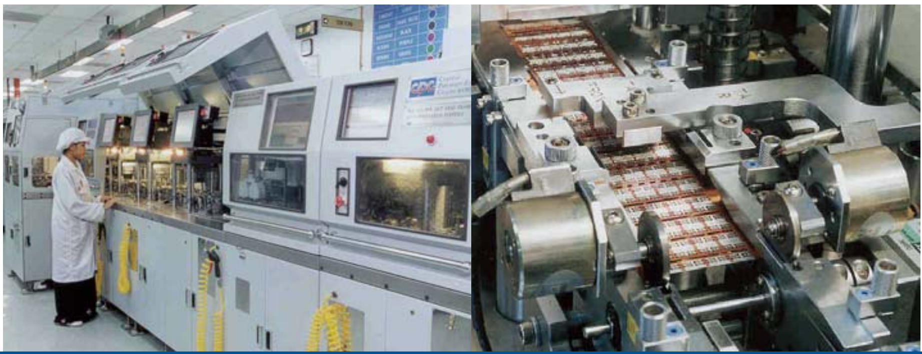
The Group recorded a loss before taxation of RM59.2 million as compared with a profit of RM126.6 million in the previous financial year and recorded a net loss of RM78.0 million as compared with a net loss of RM70.0 million in the previous financial year due principally to the adverse business condition of the semiconductor sector. The Group, however, managed to return to profitability in the fourth quarter of the financial year.

At Company level, pre-tax level recorded a profit before taxation of RM28.3 million as compared with a loss of RM274.5 million in the previous financial year. The losses in the previous financial year were mainly attributable to the write down of investment in an associated company amounting to RM323.7 million.

Business Review

Semiconductor

The industry-wide excess inventory position remained a challenge for the Semiconductor Group throughout the financial year under review. Revenues for the first three quarters were essentially flat with considerable variation and fluctuation in the different sectors. For example, the effect of the second quarter's strong growth in components for cellphones was offset by declines in other sectors.



Indications of an industry pick-up in March continued into the fourth quarter with revenue growth of 25% over the third quarter, thus returning the Semiconductor Group to profitability.

Emphasis on the development of new products, processes and technologies and aggressively promoting them in the USA and Europe have continued to generate strong interest from customers, old and new. It was most heartening for the Semiconductor Group to witness significant increases in demand over the year for these new products and technologies.

The business model is changing in that, an increasing number of customers today demand full turnkey assembly and test solutions. The demand for test is also rising as more customers chose to outsource more operations to reduce cost and delivery time. With its investments into test over the last few years, Carsem Division is well positioned for this change.

Despite the challenging operating environment, the Semiconductor Group has invested RM119.0 million into buildings, plants and equipment over the past twelve months. A substantial portion of these investments was into research and development, covering new products, processes and computer systems.

The highly advanced computerised integrated manufacturing and planning system, which went live at Carsem Semiconductor Sdn Bhd last year, lived up to expectations in bringing quantum leap improvements to productivity, cycle-time and production data visibility. It allows the company to go paperless, produce data that will drive the many productivity programmes and allow customers to access information on their products from anywhere in the world. The pilot run in Carsem (M) Sdn Bhd has also delivered encouraging results.

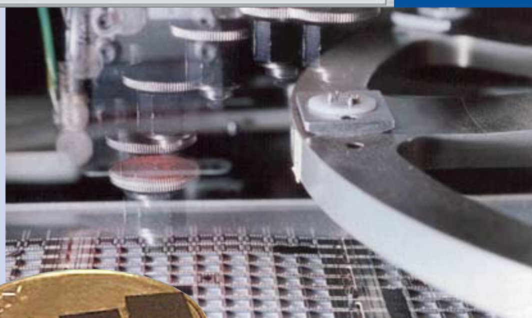
In an effort to expand its semiconductor assembly and test business into the People's Republic of China (PRC), the Group has, during the year, incorporated a wholly owned subsidiary in the PRC known as "Carsem Semiconductor (Suzhou) Co. Ltd.". The right to use a 60,000 square meter plot of land located in the Suzhou Industrial Park, about one and a half-hours drive west of Shanghai, was acquired. The plant is expected to be fully operational by the middle of the next financial year.

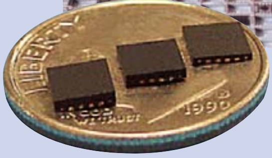
The Group's leadframe design and manufacturing arm ("Dynacraft"), continues to provide the latest product innovations to meet customers' and industry's demands. Utilising advanced materials, designs and manufacturing technologies, Dynacraft ensures the highest quality stamped and etched leadframes. Dynacraft is an industry leader in preplated leadframe (PPF) technology and is in the process of perfecting a lead-free PPF solution to meet future industry environmental standards and requirements. Its success in developing and promoting this technology has paved the way for it to increase its market share with a number of key customers.

The Semiconductor Group underwent a restructuring, which resulted in the closure of Dynacraft's USA operations and relocating the Cerdip manufacturing to Penang. This, coupled with a combination of higher capacity utilisation, yield and cost improvements, have returned Dynacraft Industries Sdn Bhd to profitability in the fourth quarter.

Ceramic Tiles

The construction sector performed stronger for the financial year under review, due principally to government pump-priming projects coupled with the continued growth in the residential property market. The low interest environment as well as faster loan approval and disbursement by the banking institutions to the broad property sector had supported this stronger performance.





The Ceramic Tiles Division outperformed the previous year's record, both in terms of turnover and profitability. This improvement in turnover comes from the ability to maintain its leadership position on the domestic market, improve volume into the key export markets and promote strong and aggressive product positioning. The strong improvement in profitability is the result of continuous and relentless drive to build a strong quality culture environment supported by capable human resources and innovative research and development effort, both in product and product design.

The Ceramic Tiles Division was very focused in their strategies in areas like cost and quality control, market and distribution, brand image and technology. Programmes such as Yield Programme, Speed to Market Programme, Quality at Source and Central Purchasing Programme, Dealers Development and Merchandising Programme have contributed to ensure both factories and distribution drive towards management excellence. This relentless drive towards excellence had won the Ceramic Tiles Division a prestigious award by one of their key customers during the financial year under review.

Motorcycles

The Motorcycles Group recorded an improved performance for the current financial year under review.

On the domestic front, industry-wide sales remained rather flat. Year-on-year, the wholesale motorcycle deliveries declined by 7.2% to 225,557 units. However, retail registrations recorded a smaller decline of 3% to 232,442 units. The attractive financing packages with low downpayments, low interest rates and extended repayment terms for automobiles had somewhat contributed to the erosion in the demand for motorcycles.

Notwithstanding the challenging and competitive environment, the Yamaha Group performed incredibly to record an 8.3% improvement in revenue and significant improvement in profits. Various actions and measures initiated by management since the Asian financial crisis in addressing cost reductions, rationalisation of operations and prudent working capital management, complemented by new products launches and a favourable Yen exchange rate had contributed positively to the overall improvement in performance of the Group.

Beside financial performance, the Group also achieved a significant improvement in market share to 22%.

During the year, two new models, namely the RXZ facelift model and the Nouvo AT115 were successfully introduced in March and April 2002 respectively. The Nouvo AT115 was the first automatic moped born of a Malaysian idea and introduced as the first in the world. With this model, Yamaha had created a new segment in the moped market. This model was pursued as an ASEAN project, involving neighbouring countries in ASEAN, namely Indonesia and Thailand, with extensive parts complementation resulting in the introduction of this model at a competitive price.

The Group continued to place emphasis and focus on cost competitiveness to address the impending onset of AFTA in year 2005 and to achieve global competitiveness to participate in Yamaha's global product supply chain.

For the overseas operations, MZ Motorrad- und Zweiradwerk GmbH, which was still in its investment phase, has continued to show progress with a 17% improvement in its revenue following the full launch of its 125cc range in April 2001 and improved acceptance of its products. This was achieved despite a general slowdown in the USA and European markets. Despite improved sales, the company was still operating in the red for the financial year under review but the company's brand image has significantly improved as evidenced by its market share in Germany in the segments represented.

The company is in the final stage of completion on the development of its 1000 cc bike and the new model is scheduled for introduction in the third quarter of the new financial year. The launch of the 1000 cc bike will mark MZ's entry into high-end big displacement motorcycle markets in the USA and Europe.

During the financial year, MZ Motorrad Sdn Bhd was established to manufacture, assemble and sell the MZ range of low displacement motorcycles in Malaysia and ASEAN as well as for exports to other global markets. Investments into a factory building and facilities were progressing and sales would commence in the second quarter of the new financial year.

Packaging

The Company had, on 13 July 2001, served a notice of voluntary offer on the Board of Directors of Guolene Packaging Industries Berhad ("GPIB") to acquire all the remaining 38,424,105 ordinary shares not already owned by the Company representing approximately 26.5% equity interest in GPIB ("Offer Shares") at a cash offer price of RM1.00 per share.

At the close of the offer on 5 November 2001 ("Closing"), HLI's shareholdings in GPIB was 96.36%.

Subsequent to the Closing, there were offers from GPIB's minority shareholders to sell the shares. HLI has accepted all the offers at RM1.00 each. HLI's shareholdings in GPIB was subsequently increased to 96.38% as at 30 June 2002.

Camerlin Group

The Group has a 28.9% stake in Camerlin Group Berhad ("Camerlin"), which in turn has a 22.3% stake in BIL International Limited ("BIL"), a company with primary listing on the Singapore Stock Exchange and secondary listings on the New Zealand and London Stock Exchanges.

Camerlin had undertaken a rights issue of RM140,879,835 nominal value of 5.5% five (5)-year irredeemable convertible unsecured loan stocks ("Camerlin ICULS") at 100% of the nominal value on the basis of RM1.00 nominal value of Camerlin ICULS for every two (2) existing ordinary shares of RM1.00 held in Camerlin ("Rights Issue"). The Rights Issue was completed with the allotment and listing of the ICULS on the Kuala Lumpur Stock Exchange on 15 July 2002 and 23 July 2002 respectively.

The Company had subscribed for RM53,966,449 nominal value of Camerlin ICULS representing 38.31% of the total Camerlin ICULS issued.

As part of the continuing effort to lower the gearing level, Camerlin had, on 29 August 2001, entered into a Sale of Shares Agreement with Hume Industries

(Malaysia) Berhad ("HIMB") to dispose of its entire 40.75% equity interest in Southern Steel Berhad to HIMB, for a total cash consideration of RM132,320,523.

Corporate Development during the Year

The following significant corporate developments took place in the financial year under review:

(a) The Company had, on 5 July 2001, entered into an agreement with Kobelco International (S) Pte Ltd ("Kobelco") and Ricon Private Ltd ("Ricon"), to dispose of 75% of its equity interest in Hong Leong Equipment Sdn Bhd ("HLE") comprising 1,500,000 ordinary shares of RM1.00 each, for a total consideration of RM1.5 million, in which the Company has a put option and Kobelco has a call option in respect of the remaining 25% of the equity shares comprising 500,000 ordinary shares of RM1.00 each ("Option Shares") within the period commencing one year from the completion date (26 December 2001) and ending two years from the completion date (25 December 2003), at a purchase price based on the higher of the par value of the Option Shares or the net tangible assets value of HLE on the option exercise date ("Disposal"). The Disposal was completed on 26 December 2001.

(b) The Company had undertaken a rights issue of RM217,784,500 nominal value of irredeemable convertible unsecured loan stocks ("ICULS") at 100% of the nominal value on the basis of RM1.00 nominal value of ICULS for every one (1) existing ordinary share of RM0.50 held in the Company. The ICULS were allotted on 28 June 2002.

(c) Guocera Tile Industries (Labuan) Sdn Bhd ("GTI(L)"), a 70% subsidiary of HLI, had undertaken a return of capital to its shareholders amounting to RM9,350,001 on the basis of RM0.50 for every one (1) GTI(L) ordinary share of RM1.00 each held, by the cancellation of RM0.50 from every GTI(L) ordinary share and the consolidation of every two (2) resultant GTI(L) ordinary shares of RM0.50 each into one (1) GTI(L) ordinary share of RM1.00 each ("GTI(L) Return of Capital").

The Court Order was granted and sealed on 6 May 2002 and 27 June 2002 respectively. The Sealed Order was subsequently lodged with the Registrar of Companies on 12 July 2002.

The GTI(L) Return of Capital was completed on 12 July 2002.

(d) GPIB had undertaken a return of capital to its shareholders amounting to RM72,510,972.50 on the basis of RM0.50 for every one (1) GPIB ordinary share of RM1.00 each held, by the cancellation of RM0.50 from every GPIB ordinary share and the consolidation of every two (2) resultant GPIB ordinary shares of RM0.50 each into one (1) GPIB ordinary share of RM1.00 each ("GPIB Return of Capital").

The GPIB Return of Capital is now pending sanction of the High Court of Malaya.

(e) MZ Holdings Limited ("MZHL"), a wholly owned subsidiary, had entered into a share subscription agreement with Mr Piti Manomaiphibul ("PM"), Mrs Daranit Srifuengfung ("DS"), the spouse of PM, Millennium Motors Company Limited ("MMCL") and the remaining shareholders of MMCL, for the subscription by MZHL of 9,800,000 ordinary shares of par value Thai

Baht ten (10) each representing 49% of the enlarged paid-up share capital of MMCL for a total cash subscription price of Thai Baht 98,000,000 (equivalent to approximately RM8,805,300) ("Subscription").

The Subscription was completed on 8 August 2002.

Future and Prospects

For the semiconductor business, notwithstanding poor visibility due to lack of forecasts, the new financial year is expected to start slowly before building momentum from September 2002 in preparation for the year-end festive season. Beyond that, the Board believes that the industry is still in the recovery mode and much would depend on the recovery of the USA's economy, which is the largest market for Malaysian electrical and electronic exports.

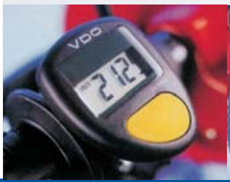
On the Building Materials division, the various infrastructure projects and sustained momentum in the residential property market is expected to be favourable to this sector and hence the performance of the Group in this sector is expected to be satisfactory in financial year 2003.

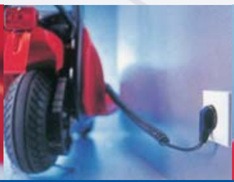
For the motorcycles industry, the domestic market is expected to show marginal growth only in the coming year. The industry will remain extremely competitive, with rumoured introduction of new models by competitors as well as the continued strengthening of the demand for lower-end passenger cars. Despite the challenging environment, we remain confident that Yamaha will be able to maintain its position in the new financial year.

Barring any unforeseen circumstances, the Board expects the various core businesses of the Group to perform satisfactorily in the coming financial year.

Dividend

The Company had declared and paid a first and second interim dividend totalling 15% tax exempt and 20% special less tax during the financial year. The Board does not recommend any final dividend for the financial year ended 30 June 2002.





Appreciation

On behalf of the Board, I would like to extend our gratitude and appreciation to the management team and all our employees for their dedicated services and invaluable contribution to the Group.

To our shareholders, valued customers, business associates and authorities, I convey our sincere thanks for their continued support and confidence in the Group.

QUEK LENG CHAN

Chairman

Kuala Lumpur

24 August 2002