

WEMBLEY INDUSTRIES HOLDINGS BERHAD

(Company No.: 25503-X)

(Incorporated in Malaysia)

NOTES TO 2ND FINANCIAL QUARTER STATEMENTS ENDED 30 JUNE 2004

1. ACCOUNTING POLICIES

The quarterly financial statements of Wembley Industries Holdings Berhad (“the Company” or “WIHB”) and the Group have been prepared in accordance with MASB 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 financial statements for the year ended 31 December 2003. The accounting policies, method of computation and basis of consolidation adopted for the interim financial reports are consistent with those adopted for the annual financial statements for the year ended 31 December 2003.

2. AUDIT QUALIFICATIONS AND STATUS OF THE MATTERS GIVING RISE TO THE QUALIFICATIONS.

The audit report of the Group’s most recent annual audited financial statements for the year ended 31 December 2003 was not subject to any qualification.

3. SEASONALLY AND CYCLICALLY OF OPERATIONS

The Group is dependent on the property and construction sectors of the economy.

4. UNUSUAL ITEMS

There were no unusual items for the financial quarter and year to-date ended 30 June 2004.

5. CHANGES IN ESTIMATES

There were no changes in estimates of amounts reported in prior quarters of the current financial year or changes in estimates of amounts reported in prior financial years, which have a material effect in the current quarter.

6. DEBT AND EQUITY SECURITIES

The Group and the Company did not undertake any issuance, cancellation, repurchase, resale and/or repayment of debt and equity securities during the current financial period ended 30 June 2004.

7. DIVIDEND

There was no dividend payment separately for ordinary shares and other shares.

No dividends are recommended or have been declared during the financial quarter and year to-date ended 30 June 2004.

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8. SEGMENTED REPORTING

	Accumulated for the financial year- to-date ended 30 June 2004		Assets Employed as at 30 June 2004
	Turnover RM'000	Loss Before Taxation RM'000	RM'000
Property development	-	(25,498)	447,160
Investments	-	(3,094)	492
Others	-	-	-
	-	(28,592)	447,652

9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The development properties were revalued by a firm of professional valuers on 22 April 2003. The market value on the development properties on an 'As Is' basis was RM400 million and based on that valuation, an impairment loss of RM531,310,615 was made in the financial statements for the year ended 31 December 2002.

Subsequently, on 23 October 2003, an updated valuation report on the Plaza Rakyat Project was provided to the Company wherein the valuers have ascribed a market value of RM450 million (and forced sale value of RM360 million) to the project based on "as is" basis of valuation. On a prudent basis, no adjustment will be made to the book value of the development properties for the financial year quarter ended 30 June 2004.

In the same valuation report dated 23 October 2003, the valuers have also ascribed a market value of RM730 million (and force sale value of RM584 million) to Phase 1 (Retail Podium comprising the Shopping Mall, the Budget Hotel and the transport facilities) on the assumption that these components are fully completed as per the approved building plans with certificate of fitness.

10. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM PERIOD

There are no material events subsequent to the end of the interim period up to the date of this report which is likely to substantially affect the results of the financial quarter and year-to-date ended 30 June 2004.

11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes to the composition of the Group for the financial quarter and year-to-date ended 30 June 2004.

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12. CONTINGENT LIABILITIES

The contingent liabilities as at 30 June 2004 are as follows:

	RM'000
Liquidated damages in respect of delivery of certain development work	64,189
Guarantees issued to third parties for credit and other facilities granted to subsidiaries	3,586
Disputed claims by other creditors	228,900
	<hr/>
	296,675
	<hr/>

13. A REVIEW OF THE PERFORMANCE OF THE COMPANY AND ITS PRINCIPAL SUBSIDIARIES

PJ Indah Sdn Bhd ("PJ Indah"), a subsidiary of PJI Holdings Berhad has been awarded the contract to complete the incomplete main building works comprising the bus and taxi terminal, the retail podium and the budget hotel ("Works"). Pursuant to the contract, PJ Indah has taken possession of the site with effect from 15 January 2004. However, full scale resumption of contract works has not started yet as the approval for the bank financing for the Works is still pending.

The Works shall be completed within twenty seven (27) months from the date of possession of the site or by 30 March 2006 whichever is earlier.

The other components of the projects such as the office tower, service apartments and the 4-star hotel have been rescheduled for future development.

The successful implementation of the Proposed Debt Restructuring and the Proposed Rights Issue would enable the Group to expedite the completion of Phase 1 (Retail Podium comprising the Shopping Mall, the Budget Hotel and the transport facilities)

14. MATERIAL CHANGE IN THE PROFIT BEFORE TAXATION FOR THE QUARTER REPORTED ON AS COMPARED WITH THE IMMEDIATE PRECEDING QUARTER.

There was no material change in the profit before taxation for the quarter reported on as compared with the immediate preceding quarter.

15. PROSPECTS

The Group's current focus is the implementation of the Plaza Rakyat Project. However, the smooth implementation of the project remains depended on the successful completion of the Proposed Debt Restructuring and the Proposed Rights Issue. The proposals would enable the Group to regain its financial footing.

Although the commercial property market remains sluggish at this moment, we are confident the market would improve in the future.

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16. PROFIT FORECAST AND PROFIT GUARANTEE

Not applicable.

17. TAXATION

There was no income tax for the financial quarter and year to-date ended 30 June 2004 in view of the loss positions of the Company and its subsidiaries.

18. UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no purchase or sale of unquoted investment and/or properties for the financial quarter and year-to-date ended 30 June 2004.

19. QUOTED INVESTMENT

There were no purchase or sale of quoted investments for the financial quarter and year-to-date ended 30 June 2004.

20. CORPORATE PROPOSALS

(i) The Proposals

On 27 January 2003, the Securities Commission ("SC") approved the following proposals (which were announced by Alliance Merchant Bank Berhad ("Alliance") on behalf of the Company on 31 July 2002):

- (i) The Proposed Capital Reduction and Consolidation involving the following:
 - (a) reduction of the existing issued and paid-up share capital of WIHB of RM144.475 million comprising 144.475 million ordinary shares of RM1.00 each in WIHB to RM57.790 million comprising 144.475 million ordinary shares of RM0.40 each by cancelling RM0.60 of the par value of RM1.00 each existing Company shares pursuant to Section 64 of the Companies Act, 1965; and
 - (b) subsequent consolidation of 144.475 million ordinary shares of RM0.40 each into 57.790 million ordinary shares of RM1.00 each upon which the sum of RM1.00 each shall be credited as having been fully paid-up

as proposed (collectively referred to as "the Proposed Capital Reduction and Consolidation"):

- (ii) the Proposed Debt Restructuring involving the following
 - (a) the issuance of RM314.981 million nominal value of 1% irredeemable unsecured loan stocks ("ICULS") at 100% of its nominal value and 31.50 million free warrants ("Warrants") as full and final settlement of the secured and unsecured loans and amounts owing by WIHB and its subsidiaries, namely Plaza Rakyat Sdn Bhd ("PRSB") and

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Wembley IBAE Sdn Bhd (assuming Daewoo Corporation ("Daewoo") does not participate in the Proposed Debt Restructuring); and

- (b) an additional total of RM112 million nominal value of ICULS and 11.2 million Warrants in the event Daewoo participates in the Proposed Debt Restructuring as proposed (save for the number of Warrants to be issued);
- (iii) Proposed renounceable two-call rights issue of 144.475 million new Shares ("Rights Shares") together with 144.475 million free Warrants on the basis of five (5) Rights Shares with five (5) Warrants for every two (2) Shares held in WIHB after the Proposed Capital Reduction and Consolidation at the proposed issue price of RM1.00 per Rights Share payable in two (2) calls, as follows:
 - (a) the first call of RM0.50 will be payable in cash upon application; and
 - (b) the second call of the remaining RM0.50 will be payable out of the Company's share premium account as proposed (save for the number of Warrants to be issued); and
- (iv) Listing of and quotation for:
 - (i) the ICULS, Warrants, Rights Shares to be issued pursuant to the above proposals; and
 - (ii) new WIHB Shares to be issued pursuant to the conversion of the ICULS and the exercise of the Warrants on the Main Board of the Malaysia Securities Exchange ("MSE").

The proposed increase in the authorised share capital of the Company from the existing RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each to 1,500,000,000 comprising 1,500,000,000 ordinary shares of RM1.00 each to accommodate the Proposed Debt Restructuring and Proposed Rights Issue announced on 31 July 2002.

The Proposed Capital Reduction and Consolidation, Proposed Debt Restructuring and Proposed Rights Issue are collectively referred to as the "Proposals".

On 13 January 2004 and 12 March 2004, Alliance, on behalf of the Company announced the following proposed revisions to the Proposed Debt Restructuring and the Proposed Rights Issue:

- (i) Proposed debt restructuring involving the issue of approximately RM427.95 million nominal value of 1% 10-year irredeemable convertible unsecured loan stocks ("ICULS") at 100% of its nominal value and approximately 42.79 million free detachable warrants on the basis of one (1) warrant for every RM10.00 nominal value of ICULS issued and a cash payment of RM493.00 ("Proposed Revised Debt Restructuring"); and
- (iii) proposed renounceable two-calls rights issue of 144,475,000 new ordinary shares of RM1.00 each together with 144,475,000 free detachable warrants at a proposed price of RM1.00 per rights share on the basis of five (5) new ordinary shares with five (5) free detachable warrants for every two (2)

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ordinary shares held in the Company after the Proposed Capital Reduction and Consolidation ("Proposed Revised Rights Issue");

The Proposed Revised Debt Restructuring and Proposed Revised Rights Issue are subject to the approval of the SC.

(iii) Conditions of the SC

The SC's approval dated 27 January 2003 for the Proposals is subject to the following conditions:

- (i) Alliance is required to provide written confirmation on the following:
 - (a) underwriting arrangement has been procured;
 - (b) Ekran Berhad has sufficient financial resources to subscribe for its entitlement in the Proposed Rights Issue before the Proposed Rights Issue is offered to the existing shareholders;

In addition, Alliance is required to provide the SC with a full list of underwriters together with their individual commitments for SC's record and in the event of any changes, the SC is required to be informed immediately.

- (ii) The Company is required to appoint an independent audit firm (with experience in investigative audit and not a past or present auditor for the WIHB group), within two (2) months from the date of the SC's approval letter, to carry out an investigative audit on the previous losses incurred.

The Company had on 23 March 2003 appointed Messrs Horwath to carry out the investigative audit, which is currently in progress. On 22 March 2004, the Company has submitted an application to the SC to seek a further extension of six (6) months to complete the investigation. On 4 June 2004, Alliance announced that the SC had vide its letter dated 2 June 2004 granted its approval to WIHB an extension of time up to 22 September 2004 for Messrs Horwath to complete its investigation audit of WIHB and it will be the final extension of time for WIHB to complete its investigation audit.

In addition, the Company is required to take necessary/required steps to recover its losses incurred and to improve its corporate governance.

Based on the audit findings thereafter, the Company is required to make a report to the relevant authorities in the event of non-compliance with the relevant laws, rules, guidelines and memorandum and articles ("M&A") by the Board of Directors of WIHB and/or any other parties which has resulted in the losses incurred by the Company.

The investigative audit is required to be completed within six (6) months from the appointment of the independent audit firm and the findings of the investigative audit are to be announced. Two (2) copies of the investigative audit reports are to be forwarded to SC upon completion of the investigative audit.

- (iii) Alliance/WIHB is required to review the total number of Warrants proposed for issue to ensure it does not exceed 50% of the enlarged issued paid up

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capital of WIHB before the conversion of ICULS and the exercise of Warrants.

- (iv) WIHB is required to disclose in the circular to shareholders and the abridged prospectus with comprehensive information regarding the following risk factors:
 - (a) financial implications on WIHB in the event Daewoo participates/does not participate in the Proposed Debt Restructuring;
 - (b) the term loan required to finance Plaza Rakyat Project which has not been obtained, efforts taken to procure it and the implications in the event the term loan is not obtained;
 - (c) accumulated losses will only be eliminated in 2014;
 - (d) details of the litigation in relation to Dato' Hamzah bin Abdul Majid, Datin Freida bt. Dato' Mohd Pilus and the WIHB group; and
 - (e) possibility of Dewan Bandaraya Kuala Lumpur ("DBKL") taking over the Plaza Rakyat Project and its implications in the event it occurs.
- (v) WIHB is further required to disclose the following in its circular to shareholders and the abridged prospectus:
 - (a) proforma consolidated balance sheets of WIHB and auditors opinion on it;
 - (b) at least profit/loss estimate / forecast for one year;
 - (c) WIHB's plans to turnaround the WIHB group; and
 - (d) comments on WIHB's prospects.
- (vi) Proposed Rights Issue can only be implemented after the execution of a supplemental agreement with DBKL to revise certain terms in relation to the joint venture agreement between DBKL and WIHB dated 16 December 1992.
- (vii) WIHB is required to ensure the details of the status of utilisation of proceeds for the Proposed Rights Issue is announced.
- (viii) With respects to the SC's approval on the issuance of ICULS:
 - (a) SC's approval must be obtained on any amendments to the terms and conditions in relation to the issuance of the ICULS;
 - (b) Prior to the issuance of the ICULS, Alliance is required to provide Form FMF/JPB to the SC and Bank Negara Malaysia; and
 - (c) Prior to the issuance of the ICULS, Alliance is required to provide the SC with the executed trust deed.
- (ix) the Company is required to fully comply with the requirements in relation to the implementation of the Proposals as stated in the SC's Policies Guidelines

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on Issue/Offer of Securities ("SC Guidelines") particularly Chapters 12, 22 and 25 of the SC Guidelines.

The utilisation of proceeds from the Proposed Rights Issue is subject to the following conditions:

- (i) the approval of SC is required for any variation in the proposed utilisation of the proceeds other than for core business of the WIHB group;
- (ii) the approval of the shareholders of WIHB is required for any revision that deviates by 25% or more from the original utilisation of proceeds. Should the deviation be less than 25%, an appropriate disclosure would need to be made to the shareholders of WIHB;
- (iii) any extension of time set by WIHB for the utilisation of proceeds is to be approved by a clear resolution by the Board of Directors of WIHB and disclosed in full to KLSE; and
- (iv) Appropriate disclosure has to be made on the status of utilisation of proceeds in the Company's quarterly reports and annual report until the proceeds have been fully utilised.

(iv) Matters under Practice Note No. 10 – Level of Operations

On 7 September 2001, the Company announced to the Exchange that the Company is deemed to be an affected issuer pursuant to paragraph 2.1(c) of the Practice Note No. 10 ("PN10").

Under paragraph 2.1(c) of PN10, a listed issuer, who has an insignificant business or operations, is deemed to have inadequate level of operations. Insignificant business or operations means business or operations, which generates revenue on a consolidated basis that represents 5% or less of the issued and paid-up share capital of the listed issuer.

As an affected listed issuer under PN10, the Company must comply with the obligations set out in paragraph 6 of PN10. The Exchange has informed the Company that since the Company is also an affected issuer under PN4, the requirements and obligations of PN4 would prevail over those of PN10. It is expected that the Company's regularisation plan would address both its financial condition (PN4) and the level of operations (PN10) to warrant a continuing listing on the Official List.

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21. GROUP BORROWINGS

The secured and unsecured short-term borrowings of the Group are as follows:

	As at 30 June 2004 RM'000
Secured:	
• Term loans	200,000
Unsecured:	
• Revolving credit	25,274
• Term loans	52,345
• Bank overdraft	5,751
Total unsecured	<u>83,370</u>
Hire Purchase & lease creditors	<u>914</u>
	<u><u>284,284</u></u>

The secured term loans of the Company and one of its subsidiaries are secured by way of a registered charge over the land held by a subsidiary and a registered fixed and floating charge over the assets of the Company.

22. OFF BALANCE SHEETS INSTRUMENTS

There were no off balance sheet instruments with off balance sheet risk for the financial quarter and year to-date ended 30 June 2004.

23. MATERIAL LITIGATION

There are no changes in the material litigation since the last annual balance sheet date.

Save as disclosed below, the Company and/or its subsidiaries are not involved in any material litigation, either as plaintiff or defendant, and the Directors of the Company do not have any knowledge of any proceedings pending or threatened against the Company and/or its subsidiaries or any facts likely to give rise to any proceeding which may materially affect the financial position or business of the Company and/or its subsidiaries.

- (i) Included in the other creditors, is an amount due to former directors of RM83,034,920 of which RM75,000,000 have been allocated as collateral in respect of guarantee by the former directors of a subsidiary for the two (2) financial years ended 31 December 1994 and 1995. The said former director has instituted legal action for the amount due via Kuala Lumpur High Court Suit No.: D4-22-831-97 which is pending. The Company is defending the said action and has instituted a counter-claim sum of RM129,666,403 against, inter-alia, the former director for the shortfall in the profit guaranteed for the aforesaid years as well as that for the financial year ended 31 December 1996.

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- (ii) The following are the litigation initiated by the financial institutions against the Company:

Financial Institutions	Suit No.	Amount Claimed RM'000
Danaharta (previously under Aseam Bankers Malaysia Berhad)	D5-22-409-98	5,000
Danaharta (previously under Perwira Affin Bank Berhad)	D1-22-281-99	10,000
EON Bank Berhad	D3-22-388-98	26,178
Perwira Affin Bank Berhad	MT3-22-367-99	4,000
RHB Bank Berhad	D3-22-388-98 D6-22-1325-99	5,000 2,164

24. LOSS PER SHARE

The loss per share is calculated based on the Group loss after taxation for the financial quarter and year to-date ended 30 June 2004 and on the number of shares in issue during the year to-date of 144,475,000.

Diluted loss per share is not presented, as there are no potential ordinary shares outstanding as at 30 June 2004.