

PROPOSED DISPOSAL BY HONG LEONG INDUSTRIES BERHAD OF ITS ENTIRE INTERESTS IN MPI POLYESTER INDUSTRIES SDN BHD TO DELTRONE INVESTMENTS LTD

1. INTRODUCTION

Proposed Disposal

Hong Leong Industries Berhad (“the Company” or “HLI”) writes to inform that it had, on 26 May 2005 entered into a sale and purchase agreement (“SPA”) with Deltrone Investments Ltd (“Deltrone”) for the proposed disposal by HLI of 40,000,000 ordinary shares of RM1.00 each and 6,800 Redeemable Preference Shares of RM100.00 each (“Sale Shares”), representing the entire interests in MPI Polyester Industries Sdn Bhd (“MPIPI”), to Deltrone for cash consideration of Ringgit Malaysia Twenty Two Million and Eight Hundred Thousand (RM22,800,000.00) (“Purchase Price”) [“Proposed Disposal”].

2. INFORMATION ON COMPANIES

2.1 HLI

HLI was incorporated in Malaysia on 5 May 1964 and is currently listed on the Main Board of Bursa Malaysia Securities Berhad. It has an authorised share capital of RM300,000,000.00 comprising 600,000,000 ordinary shares of RM0.50 each. The present issued and paid-up share capital is RM112,901,208.00 comprising 225,802,416 ordinary shares of RM0.50 each. The adjusted issued and paid-up share capital taking into account the treasury shares held is RM109,229,208.00 comprising 218,458,416 ordinary shares of RM0.50 each.

HLI is principally an investment holding company. The activities of HLI’s subsidiaries include manufacturing, testing and sale of integrated circuits, semiconductor devices, electronic components and leadframes, manufacture, assembly and distribution of motorcycles, electric scooters and related parts and products and manufacture and sale of ceramic tiles.

2.2 MPIPI

MPIPI was incorporated in Malaysia on 27 October 1992 with an authorised share capital of RM50,000,000.00 divided into 49,000,000 ordinary shares of RM1.00 each and 10,000 Redeemable Preference Shares of RM100.00 each of which 40,000,000 ordinary shares of RM1.00 each and 6,800 Redeemable Preference Shares of RM100.00 each have been issued and fully paid-up.

MPIPI is a licensed manufacturing company and is principally involved in the manufacturing of polyester (“PET”) resin.

The audited net tangible assets of MPIPI as at 30 June 2004 is RM42,404,000.00. The audited profit after tax of MPIPI for the financial year ended 30 June 2004 is RM988,000.00.

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2.3 Deltrone

Deltrone was incorporated in the British Virgin Islands on 1 March 2005 with an authorised share capital of USD50,000.00 divided into 50,000 ordinary shares of USD1.00 each of which 10 ordinary shares of USD1.00 each have been issued and fully paid-up.

Deltrone is principally an investment holding company.

3. DETAILS OF THE PROPOSED DISPOSAL

The total consideration of RM22,800,000.00 was arrived at on a willing buyer willing seller basis.

Pursuant to the SPA, the consideration of RM22,800,000.00 will be payable in the following manner:

- i) upon the execution of the SPA, a sum of Ringgit Malaysia Two Million Two Hundred and Eighty Thousand (RM2,280,000.00) only; and
- ii) the balance of the consideration of RM20,520,000.00 on the Completion Date as stipulated in the SPA i.e.:
 - (a) the last day of the calendar month in which the Unconditional Date (i.e. the date by which the condition precedent is fulfilled or obtained) falls; or
 - (b) where, however, there is less than five (5) business days from the last day of the calendar month in which the Unconditional Date falls (both dates inclusive), five (5) business days after the Unconditional Date.

In addition to the aforesaid consideration for the Proposed Disposal, Deltrone shall pay to HLI a sum of RM16,000,000.00 ("Outstanding Debt") being the amount owing by MPIPI to HLI, on the Completion Date. Save as disclosed, there are no other liabilities to be assumed by Deltrone arising from the Proposed Disposal.

The original cost of investment by HLI in the Sale Shares were RM108,000,000.00 made during the period between 22 June 1999 to 15 September 2003.

4. SALIENT TERMS OF THE PROPOSED DISPOSAL

The salient terms of the Proposed Disposal are as follows:

- a) The Sale Shares will be disposed of free from any mortgage, charge, lien, pledge or other encumbrance and with all rights, including dividend rights, attached or accruing to them, on and from the Completion Date.

- b) HLI and Deltrone acknowledge and confirm that the Purchase Price is based on the net liabilities (including the Outstanding Debt) less the total assets (other than fixed assets) (“Net Liabilities”) of MPIPI totaling RM51,220,000.00 (“Agreed Net Liabilities”).

In the event that the Net Liabilities of MPIPI as of Completion Date, as determined by Auditors or independent accountants, are not equal to the Agreed Net Liabilities, the Purchase Price shall be increased or decreased accordingly by the difference between the Net Liabilities as of Completion Date and the Agreed Net Liabilities.

5. RATIONALE OF THE PROPOSED DISPOSAL .

The Proposed Disposal will enable HLI Group to focus on its existing core businesses and to utilise the sale proceeds to reduce HLI Group’s borrowings.

6. EFFECTS OF THE PROPOSED DISPOSAL

6.1 Share Capital and Substantial Shareholders’ Shareholdings

The Proposed Disposal will not have any effect on the share capital and substantial shareholders’ shareholdings of HLI.

6.2 Net Tangible Assets (“NTA”)

The proforma effects of the Proposed Disposal on HLI Group are tabulated in Table 1 of this announcement.

6.3 Earnings

The Proposed Disposal is expected to result in a gain on disposal of approximately RM16.94 million (calculated based on HLI Group’s carrying value of the Sale Shares as at 30 June 2004) at HLI Group level. The gain from the Proposed Disposal will translate to an increase in net earnings per share of HLI Group of approximately 7.8 sen for the financial year ending 30 June 2005.

7. DIRECTORS’ AND MAJOR SHAREHOLDERS’ INTERESTS

None of the Directors and major shareholders of HLI or any persons connected to the Directors and major shareholders of HLI, has any interest, direct or indirect, in the Proposed Disposal.

8. DIRECTORS’ OPINION

The Board of Directors of HLI is of the opinion that the Proposed Disposal is in the best interest of HLI Group.

9. CONDITION FOR THE PROPOSED DISPOSAL

The Proposed Disposal is subject to the approval being obtained from the Ministry of International Trade and Industry. Save as the aforesaid, the Proposed Disposal is not subject to the approval of the shareholders of HLI nor any other governmental authority.

10. DOCUMENTS FOR INSPECTION

The SPA are available for inspection at the Registered Office of HLI at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur during normal business hours from Mondays to Fridays (except public holidays) for a period of 14 days from the date of this announcement.

This announcement is dated 26 May 2005.