

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2005

The figures have not been audited

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE QUARTER ENDED 31 DECEMBER 2005

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2005 RM'000	31/12/2004 RM'000	31/12/2005 RM'000	31/12/2004 RM'000
Revenue	593,993	574,142	1,191,186	1,232,475
Operating expenses	(534,799)	(556,421)	(1,089,289)	(1,162,025)
Other operating (expenses) / income	(10,446)	10,415	(81,305)	3,621
Operating profit	48,748	28,136	20,592	74,071
Interest income	1,927	4,138	3,521	7,434
Finance costs	(16,579)	(24,164)	(32,312)	(46,520)
Share of profit of associated companies	15,056	11,783	22,621	23,784
Profit before taxation	49,152	19,893	14,422	58,769
Taxation	(5,704)	2,842	(8,232)	1,273
Profit after taxation	43,448	22,735	6,190	60,042
Minority interest	(23,314)	(9,866)	(43,685)	(30,232)
Net profit / (loss) for the period	20,134	12,869	(37,495)	29,810
Earnings / (loss) per ordinary share (sen) :-				
(a) Basic	8.32	4.96	(19.08)	11.78
(b) Fully diluted	7.82	4.89	NA	11.40

The Condensed Consolidated Income Statement should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2005.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2005

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CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2005

	As At End of Current Quarter 31/12/2005 RM'000	As At Preceding Financial Year End 30/06/2005 RM'000
Property, plant and equipment	1,344,188	1,386,896
Investments in associated companies	100,968	79,705
Other investments	294,234	294,234
Intangible assets	439,409	437,365
Other assets	15,619	10,590
Deferred tax assets	6,631	3,306
Current assets		
Property assets	21,063	21,063
Inventories	236,359	241,172
Trade and other receivables	452,773	429,541
Tax recoverable	40,447	38,052
Short term investments	1,237	1,105
Deposits, cash and bank balances	272,456	400,487
	1,024,335	1,131,420
Current liabilities		
Trade and other payables	416,180	403,951
Short term borrowings and overdraft	503,885	504,010
Taxation	8,334	4,247
	928,399	912,208
Net current assets	95,936	219,212
	2,296,985	2,431,308
Share capital	112,901	112,901
Reserves	615,201	662,295
Treasury shares – at cost	(63,292)	(59,835)
Irredeemable convertible unsecured loan stocks 2002/2007 (“ICULS”)	203,975	203,975
	868,785	919,336
Minority shareholders’ interests	586,550	573,753
Long term and deferred liabilities		
Borrowings	436,352	538,590
Redeemable Bonds	250,000	250,000
EuroConvertible Bonds	117,386	117,386
Deferred tax liabilities	25,758	20,670
Retirement benefits	12,154	11,573
	841,650	938,219
	2,296,985	2,431,308
Net assets per share (sen)	669	683

* The net assets per share is calculated based on the computation of Total assets (including intangibles) minus Total liabilities divided by Total number of ordinary shares in circulation.

The Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2005.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2005

	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2005 RM'000	31/12/2004 RM'000
Profit before taxation	14,422	58,769
Adjustments for:-		
Depreciation and amortization	131,294	140,736
Share of profit of associated companies	(22,621)	(23,784)
Non cash items	67,737	4,714
Net financing costs	28,791	39,086
Operating profit before changes in working capital	<u>219,623</u>	<u>219,521</u>
Changes in working capital		
Net change in long term / current assets	(43,587)	10,390
Net change in current liabilities	11,343	(125,680)
Net income taxes (paid) / refunded	(4,519)	48,109
Other operating income received	715	3,425
Net financing costs paid	(28,791)	(39,086)
Net cash generated from operating activities	<u>154,784</u>	<u>116,679</u>
Investing Activities		
Equity investments	31	4,392
Other investments	(133,298)	(151,577)
Net cash used in investing activities	<u>(133,267)</u>	<u>(147,185)</u>
Financing Activity		
Dividend paid	(39,569)	(34,788)
ICULS interest Paid	(4,079)	(4,134)
Net (repayments) / proceeds of bank borrowings	(106,272)	59,590
Purchase of treasury shares	(3,457)	-
Net cash (used in) / generated from financing activities	<u>(153,377)</u>	<u>20,668</u>
Net change in cash and cash equivalents	(131,860)	(9,838)
Cash & cash equivalents at beginning of period	399,659	368,530
Effect of foreign exchange rate changes on cash and cash equivalents	(13)	(394)
Cash & cash equivalents at end of period	<u>267,786</u>	<u>358,298</u>

Cash and cash equivalents included in the consolidated cash flow statements comprise the following balance sheet amounts:

	31/12/2005 RM'000	31/12/2004 RM'000
Deposits, cash and bank balances	272,456	383,516
Bank overdraft	(4,670)	(25,218)
	<u>267,786</u>	<u>358,298</u>

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2005.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2005

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2005

	Share capital	Share premium	Other reserves	Retained profits	Treasury shares	Irredeemable convertible unsecured loan stocks	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current year-to-date ended 31 December 2005							
At 1 July 2005	112,901	293,237	(17,545)	386,603	(59,835)	203,975	919,336
Net loss for the period	-	-	-	(37,495)	-	-	(37,495)
Dividends	-	-	-	(6,630)	-	-	(6,630)
Interest on ICULS	-	-	-	(4,079)	-	-	(4,079)
Purchase of treasury shares	-	-	-	-	(3,457)	-	(3,457)
Foreign currency translation differences	-	-	1,110	-	-	-	1,110
At 31 December 2005	112,901	293,237	(16,435)	338,399	(63,292)	203,975	868,785
Preceding year corresponding period ended 31 December 2004							
At 1 July 2004	112,661	290,495	70,367	317,469	(59,835)	206,957	938,114
Net profit for the period	-	-	-	29,810	-	-	29,810
Dividends	-	-	-	(6,650)	-	-	(6,650)
Interest on ICULS	-	-	-	(4,134)	-	-	(4,134)
Conversion of ICULS into shares	20	228	-	-	-	(248)	-
Foreign currency translation differences	-	-	(3,346)	-	-	-	(3,346)
Realisation of other reserves	-	-	(11,350)	11,350	-	-	-
Transfer to capital redemption reserves	-	-	56	(56)	-	-	-
At 31 December 2004	112,681	290,723	55,727	347,789	(59,835)	206,709	953,794

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the Year Ended 30 June 2005.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2005

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1. Accounting policies and methods of computation

The interim financial report has been prepared in accordance with FRS 134 “Interim Financial Reporting” and should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2005.

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 2005.

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

The audit report for the preceding annual financial statements was not qualified.

3. Seasonality or cyclicity of interim operations

The Group’s operation is not affected materially by any seasonal / cyclical factors.

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 during the current financial year-to-date.

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 financial years.

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

During the current financial year-to-date, the Company bought back 1,070,500 of its own shares from the open market for a total consideration of RM3,408,042. The total number of shares bought back as at 31 December 2005 was 8,414,500 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.

There were no issuance of shares, shares cancellation, resale of treasury shares nor repayment of debt or equity shares during the current financial year-to-date.

7. Dividend paid

The Company has paid the following dividends during the current financial year-to-date:-

	Current Year- To-Date
	RM'000
Gross interim dividend of 1.25 sen per share tax exempt and 2.50 sen per share less tax paid on 27 December 2005	6,630

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2005

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8. Segmental reporting

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

	Motorcycles	Building materials	Semi-conductor	Other	Investment holding	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	286,455	288,002	615,769	70	890	1,191,186
Results						
Segment results	8,805	19,288	65,118	(479)	(7,916)	84,816
Share of profit of associated companies	22,621	-	-	-	-	22,621
	31,426	19,288	65,118	(479)	(7,916)	107,437
One-off write-down	(64,224)	-	-	-	-	(64,224)
	(32,798)	19,288	65,118	(479)	(7,916)	43,213
Interest income						3,521
Finance costs						(32,312)
Profit before taxation						14,422
Taxation						(8,232)
Profit after taxation						6,190
Minority interest						(43,685)
Net loss for the period						(37,495)

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.

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2005

The figures have not been audited

11. Changes in the composition of the Group

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

- (i) The following Company's subsidiaries had been placed under member's voluntary liquidation pursuant to Section 254(1)(b) of the Companies Act, 1965:-
 - (a) Hong Leong Maruken Sdn Bhd, a 70% subsidiary;
 - (b) Kasih Sayang Realty Sdn Bhd, a wholly-owned subsidiary;
 - (c) Varinet Sdn Bhd, a 60% subsidiary;
 - (d) Allied Auto Parts Sdn Bhd, a 69.4% subsidiary; and
 - (e) MPI Property Sdn Bhd, a wholly-owned subsidiary.

The liquidations are currently pending tax clearance from the Inland Revenue Board.

- (ii) The Company and Guolene Plastic Products Sdn Bhd ("GPLP"), a wholly-owned subsidiary, had, on 7 October 2005, subscribed for an aggregate of 2,610,000 new ordinary shares of RM1.00 each in the share capital of Global Roaming Communications Sdn Bhd ("GRC") for a total cash consideration of RM2,610,000 ("Subscription"). Consequent to the Subscription, the Company and GPLP now hold in aggregate 50.1% of the issued and paid-up share capital of GRC.

12. Contingent liabilities or contingent assets

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

13. Review of performance

The Group recorded a revenue and profit before tax ("PBT") of RM594.0 million and RM49.2 million respectively for the current quarter under review as compared with RM574.1 million and RM19.9 million respectively in the preceding year's corresponding quarter.

The increase in PBT is mainly attributable to the increase in profit of the semiconductor and motorcycles sectors, lower financing cost and higher profit achieved by an associated company.

For the financial year-to-date, the Group recorded a PBT of RM14.4 million as compared with a PBT of RM58.8 million in the preceding year's corresponding period. If the one-off restructuring cost of RM64.2 million incurred by the Group's MZ operation in Germany were excluded, the Group would have recorded a PBT of RM78.6 million for the current financial year-to-date.

14. Material changes in profit before taxation

The Group recorded a PBT of RM49.2 million as compared with a loss before tax ("LBT") of RM34.7 million in the preceding quarter.

The increase in PBT as compared with the preceding quarter is mainly attributable to the increase in profit of the semiconductor sector coupled with the higher profit achieved by an associated company.

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15. Prospects

Barring any unforeseen circumstances, the Group expects its performance to be satisfactory for the current financial year ending 30 June 2006.

16. Profit forecast / profit guaranteed

This note is not applicable.

17. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2005 RM'000	31/12/2004 RM'000	31/12/2005 RM'000	31/12/2004 RM'000
Current tax				
Malaysian				
- current	1,483	(4,177)	8,564	584
- prior years	152	(972)	(2,411)	(9,196)
Overseas				
- current	25	15	59	42
	1,660	(5,134)	6,212	(8,570)
Deferred tax				
Malaysian				
- current	6,397	1,581	4,499	7,136
- prior years	(2,501)	44	(2,753)	44
Foreign				
- current	-	377	-	377
	3,896	2,002	1,746	7,557
Share of taxation of associated companies	148	290	274	(260)
	5,704	(2,842)	8,232	(1,273)

The Group's effective tax rate of the current quarter is lower than the statutory tax rate due mainly to tax incentives / allowances granted to certain subsidiary companies.

The Group's effective tax rate of the current year-to-date is higher than the statutory tax rate due mainly to expenses of certain subsidiary companies which are not tax deductible which however partly offset by tax incentives / allowances granted to other subsidiary companies.

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18. Sale of unquoted investments and/or properties

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

(b) Particulars of investments in quoted securities as at 31 December 2005:-

	RM'000
Short term investments:	
At cost	<u>1,237</u>
At book value	<u>1,237</u>
At market value	<u>1,379</u>

20. Corporate proposals

There were no corporate proposals announced but not completed as at the date of this report other than as mentioned below:

The Company had, on 14 October 2005, announced that its shareholders had approved the establishment of a new Executive Share Option Scheme ("Scheme") of up to 15% of the issued and paid-up ordinary share capital of the Company.

Approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the new ordinary shares of the Company to be issued pursuant to the exercise of options under the Scheme as obtained on 29 December 2005. The Scheme was established on 23 January 2006.

21. Group's borrowings and debt securities

Particulars of the Group's borrowings and debt securities as at 31 December 2005 are as follows:-

	RM'000
(i) Unsecured short term borrowings and overdraft	503,885
(ii) Unsecured long term borrowings	<u>803,738</u>
	<u>1,307,623</u>

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

	RM'000
USD borrowings	628,378
Euro borrowings	7,479

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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 financial instruments with off balance sheet risk as at 9 February 2006 are as follow:-

	Contract amount
	RM'000
Foreign exchange forward contracts	<u>75,827</u>

The above contacts are maturing within a period of 6 months.

There is minimal credit and market risk because the contracts were executed with established financial institutions.

Gains and losses on foreign exchange forward contracts are recognised in the income statements upon realisation.

23. Changes in material litigation

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

24. Dividend

- (a) The Board does not recommend any interim dividend for the quarter ended 31 December 2005 of the financial year ending 30 June 2006 (2004/2005: nil).
- (b) For the financial year-to-date, a total gross dividend of 1.25 sen per share tax exempt and 2.50 sen per share less tax has been declared (2004/2005: 1.25 sen per share tax exempt and 2.50 sen per share less tax).

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25. Earnings per ordinary share

Basic earnings per share

The calculation of basic earnings per ordinary share for the current quarter is based on the net profit attributable to ordinary shareholders of RM18,095,000 (2004/2005: net profit of RM10,805,000), being the net profit of RM20,134,000 (2004/2005 : net profit of RM12,869,000) less interest on the ICULS of RM2,039,000 (2004/2005 : RM2,064,000) and the weighted average number of ordinary shares outstanding during the quarter of 217,413,000 (2004/2005: 217,993,000).

The calculation of basic earning per share for the current year-to-date is based on the net loss attributable to ordinary shareholders of RM41,574,000 (2004/2005: net profit of RM25,676,000), being the net loss of RM37,495,000 (2004/2005: net profit of RM29,810,000) less the interest on the ICULS of RM4,079,000 (2004/2005: RM4,134,000) and the weighted average number of ordinary shares outstanding during the period of 217,837,000 (2004/2005: 217,985,000)

Weighted average number of ordinary shares

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To- Date	Preceding Year Corresponding Period
	31/12/2005 '000	31/12/2004 '000	31/12/2005 '000	31/12/2004 '000
Issued ordinary shares at beginning of period	217,494	217,977	218,458	217,977
Effect of purchase of treasury shares	(81)	-	(621)	-
Effect of conversion of ICULS	-	16	-	8
Weighted average number of ordinary shares	217,413	217,993	217,837	217,985

Diluted earnings per share

The calculation of diluted earnings per ordinary share for the current quarter is based on the net profit attributable to ordinary shareholders (diluted) of RM19,563,000 (2005: RM12,291,000) and the weighted average number of ordinary shares (diluted) outstanding during the quarter of 250,312,000 (2005: 251,358,000).

The Group has no dilution in its loss per ordinary share for the current year-to-date as the conversion of the potential ordinary shares would reduce the basic loss per ordinary share.

The calculation of diluted earnings per ordinary share for the preceding year corresponding period were based on the net profit attributable to ordinary shareholders (diluted) of RM28,652,000 and the weighted average number of ordinary shares (diluted) outstanding during the preceding corresponding period of 251,358,000.

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25. Earnings per ordinary share (cont'd)

Diluted earnings per share (cont'd)

Net profit attributable to ordinary shareholders (diluted)

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To- Date	Preceding Year Corresponding Period
	31/12/2005 RM'000	31/12/2004 RM'000	31/12/2005 RM'000	31/12/2004 RM'000
Net profit attributable to ordinary shareholders	18,095	10,805	NA	25,676
After tax effect of interest savings on ICULS	1,468	1,486	NA	2,976
Net profit attributable to ordinary shareholders (diluted)	19,563	12,291	NA	28,652

Weighted average number of ordinary shares (diluted)

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To- Date	Preceding Year Corresponding Period
	31/12/2005 '000	31/12/2004 '000	31/12/2005 '000	31/12/2004 '000
Weighted average number of ordinary shares (basic)	217,413	217,993	NA	217,985
Effect of shares to be issued on conversion of ICULS	32,899	33,365	NA	33,373
Weighted average number of ordinary shares (diluted)	250,312	251,358	NA	251,358

By Order of the Board
Hong Leong Industries Berhad

Joanne Leong Wei Yin
Company Secretary

Kuala Lumpur
16 February 2006