



Hong Leong Industries

A Member of the Hong Leong Group

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2010

The figures have not been audited

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE QUARTER ENDED 31 DECEMBER 2010

| | Individual Quarter | | Cumulative Quarter | |
|---|----------------------|--------------------------------------|----------------------|-------------------------------------|
| | Current Year Quarter | Preceding Year Corresponding Quarter | Current Year-To-Date | Preceding Year Corresponding Period |
| | 31/12/2010 RM'000 | 31/12/2009 RM'000 | 31/12/2010 RM'000 | 31/12/2009 RM'000 |
| Revenue | 794,087 | 717,204 | 1,566,662 | 1,389,161 |
| Cost of sales | (671,510) | (599,973) | (1,325,774) | (1,168,656) |
| Gross profit | 122,577 | 117,231 | 240,888 | 220,505 |
| Operating expenses | (39,244) | (42,235) | (76,850) | (82,559) |
| Other operating income | 3,070 | 231 | 5,736 | 875 |
| Operating profit | 86,403 | 75,227 | 169,774 | 138,821 |
| Interest income | 1,135 | 744 | 1,984 | 1,435 |
| Finance costs | (7,177) | (5,646) | (14,291) | (11,717) |
| Share of profit of associated companies | 17,336 | 13,306 | 24,506 | 22,703 |
| Profit before taxation | 97,697 | 83,631 | 181,973 | 151,242 |
| Taxation | (11,465) | (10,076) | (25,211) | (21,025) |
| Profit for the period | 86,232 | 73,555 | 156,762 | 130,217 |
| Profit attributable to: | | | | |
| Equity holders of the parent | 58,813 | 50,449 | 104,315 | 90,971 |
| Minority interests | 27,419 | 23,106 | 52,447 | 39,246 |
| Profit for the period | 86,232 | 73,555 | 156,762 | 130,217 |
| Earnings per ordinary share (sen) :- | | | | |
| (a) Basic | 22.48 | 19.29 | 39.88 | 34.78 |
| (b) Fully diluted | N/A | N/A | N/A | N/A |

The Condensed Consolidated Income Statements should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2010.

HLIBM

**HONG LEONG INDUSTRIES BERHAD (5486-P)
 QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND
 QUARTER ENDED 31 DECEMBER 2010**

The figures have not been audited

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE
 QUARTER ENDED 31 DECEMBER 2010**

| | Individual Quarter | | Cumulative Quarter | |
|--|-------------------------|--|--------------------------|---|
| | Current Year Quarter | Preceding Year Corresponding Quarter | Current Year- To-Date | Preceding Year Corresponding Period |
| | 31/12/2010 RM'000 | 31/12/2009 RM'000 | 31/12/2010 RM'000 | 31/12/2009 RM'000 |
| Profit for the period | 86,232 | 73,555 | 156,762 | 130,217 |
| Foreign currency translation differences for foreign operations | (2,684) | (11,930) | (20,004) | (16,969) |
| Total comprehensive income for the period | 83,548 | 61,625 | 136,758 | 113,248 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the parent | 55,364 | 39,538 | 86,527 | 76,069 |
| Minority interests | 28,184 | 22,087 | 50,231 | 37,179 |
| Total comprehensive income for the period | 83,548 | 61,625 | 136,758 | 113,248 |

The Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2010.

HONG LEONG INDUSTRIES BERHAD (5486-P)
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The figures have not been audited

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER
2010

| | As At End of Current Quarter | As At End of Preceding Financial Year |
|--|---------------------------------|---|
| | 31/12/2010 RM'000 | 30/06/2010 RM'000 |
| Non-current assets | | |
| Property, plant and equipment | 1,383,514 | 1,318,992 |
| Investments in associated companies | 393,970 | 382,946 |
| Other investments | 60 | 60 |
| Intangible assets | 437,028 | 447,328 |
| | <u>2,214,572</u> | <u>2,149,326</u> |
| Current assets | | |
| Inventories | 250,945 | 190,225 |
| Trade and other receivables | 540,199 | 516,685 |
| Tax recoverable | 13,869 | 11,529 |
| Assets held for sale | 14,674 | 9,342 |
| Other financial assets | 490 | - |
| Cash and cash equivalents | 372,169 | 429,160 |
| | <u>1,192,346</u> | <u>1,156,941</u> |
| TOTAL ASSETS | <u>3,406,918</u> | <u>3,306,267</u> |
| Equity attributable to equity holders of the parent | | |
| Share capital | 140,573 | 140,573 |
| Reserves | 1,367,561 | 1,311,096 |
| Treasury shares - at cost | (63,318) | (63,318) |
| | <u>1,444,816</u> | <u>1,388,351</u> |
| Minority interests | 627,513 | 638,094 |
| TOTAL EQUITY | <u>2,072,329</u> | <u>2,026,445</u> |
| Non-current liabilities | | |
| Borrowings (unsecured) | 318,039 | 371,768 |
| Deferred tax liabilities | 26,070 | 23,043 |
| Retirement benefits | 13,505 | 12,967 |
| | <u>357,614</u> | <u>407,778</u> |
| Current liabilities | | |
| Trade and other payables | 520,077 | 469,788 |
| Borrowings (unsecured) | 433,229 | 387,504 |
| Taxation | 23,669 | 14,752 |
| | <u>976,975</u> | <u>872,044</u> |
| TOTAL LIABILITIES | <u>1,334,589</u> | <u>1,279,822</u> |
| TOTAL EQUITY AND LIABILITIES | <u>3,406,918</u> | <u>3,306,267</u> |
| Net assets per share attributable to ordinary equity holders of the parent (RM) | 5.52 | 5.31 |

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2010

**HONG LEONG INDUSTRIES BERHAD (5486-F)
 QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2010**

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2010

| | Attributable to equity holders of the parent | | | | | | Total equity RM'000 | | | |
|--|--|-------------------------|--------------------------|----------------------------------|--------------------------------|--|--|-----------------|------------------------------|------------------------|
| | Share capital RM'000 | Share premium RM'000 | Non-distributable | | Treasury shares RM'000 | Distributable Retained profits RM'000 | | | | |
| | Share capital RM'000 | Share premium RM'000 | Other reserves RM'000 | Reserve for own shares RM'000 | Share option reserve RM'000 | Treasury shares RM'000 | Distributable Retained profits RM'000 | Total RM'000 | Minority interests RM'000 | Total equity RM'000 |
| Current year-to date ended 31 December 2010 | 140,573 | 586,926 | (57,748) | (54,374) | 442 | (63,318) | 835,850 | 1,388,351 | 638,094 | 2,026,445 |
| At 1 July 2010 | - | - | (17,788) | - | - | - | 104,315 | 86,527 | 50,231 | 136,758 |
| Total comprehensive income for the period | - | - | - | - | - | - | (26,157) | (26,157) | (58,997) | (85,154) |
| Dividend paid | - | - | (4,080) | - | - | - | - | (4,080) | (2,570) | (6,650) |
| Purchase of Trust Share by a subsidiary | - | - | - | - | - | - | - | - | 538 | 538 |
| Issued of shares to minority shareholders | - | - | 175 | - | - | - | - | 175 | 217 | 392 |
| Share-based payments | - | - | - | - | - | - | - | - | - | - |
| At 31 December 2010 | 140,573 | 586,926 | (79,441) | (54,374) | 442 | (63,318) | 914,008 | 1,444,816 | 627,513 | 2,072,329 |

**HONG LEONG INDUSTRIES BERHAD (5486-P)
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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2010 (Cont'd)

| | ←----- Attributable to equity holders of the parent -----> | | | | | Distributable | Total | Minority | Total | |
|--|--|---------------|----------------|------------------------|----------------------|---------------|----------|-----------|----------|-----------------|
| | Share capital | Share premium | Other reserves | Reserve for own shares | Share option reserve | | | | | Treasury shares |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Preceding year corresponding period ended | | | | | | | | | | |
| 31 December 2009 | 140,573 | 586,926 | (28,479) | (54,374) | 1,068 | (63,309) | 686,398 | 1,268,803 | 590,410 | 1,859,213 |
| Total comprehensive income for the period | - | - | (14,902) | - | - | - | 90,971 | 76,069 | 37,179 | 113,248 |
| Dividend paid | - | - | - | - | - | - | (18,310) | (18,310) | (22,020) | (40,330) |
| Purchase of treasury shares | - | - | - | - | - | (5) | - | (5) | - | (5) |
| Transfer to capital redemption reserves | - | - | 61 | - | - | - | (61) | - | - | - |
| Share-based payments | - | - | (330) | - | 62 | - | - | (268) | (83) | (351) |
| At 31 December 2009 | 140,573 | 586,926 | (43,650) | (54,374) | 1,130 | (63,314) | 758,998 | 1,326,289 | 605,486 | 1,931,775 |

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2010.

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ENDED 31 DECEMBER 2010

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED
31 DECEMBER 2010

| | Current Year- To-Date 31/12/2010 RM'000 | Preceding Year Corresponding Period 31/12/2009 RM'000 |
|--|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 181,973 | 151,242 |
| Adjustments for:- | | |
| Share of profit of associated companies | (24,506) | (22,703) |
| Depreciation and amortisation | 112,476 | 119,941 |
| Non cash items | (1,950) | 9,488 |
| Net financing costs | 12,160 | 10,282 |
| Operating profit before changes in working capital | 280,153 | 268,250 |
| Changes in working capital | | |
| Net change in current assets | (91,942) | (91,491) |
| Net change in current liabilities | 52,824 | 93,712 |
| Taxation paid | (15,607) | (3,173) |
| Net financing costs paid | (12,306) | (10,282) |
| Other operating income received | 2,679 | 5,377 |
| Net cash generated from operating activities | 215,801 | 262,393 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant & equipment | (176,620) | (138,375) |
| Issued of shares to minority shareholders | 538 | - |
| Net cash used in investing activities | (176,082) | (138,375) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividend paid to equity holders of the Company | (26,157) | (18,310) |
| Dividend paid to minority shareholders of subsidiaries | (58,997) | (22,020) |
| Net repayment of borrowings | (3,635) | 13,301 |
| Purchase of Trust Shares | (6,650) | (10) |
| Net cash used in financing activities | (95,439) | (27,039) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (55,720) | 96,979 |
| CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD | 429,160 | 261,008 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (1,271) | (815) |
| CASH & CASH EQUIVALENTS AT END OF PERIOD | 372,169 | 357,172 |
| Cash and cash equivalents included in the consolidated statement of cash flows comprise the following: | | |
| | 30/09/2010 RM'000 | 30/09/2009 RM'000 |
| Deposits, cash and bank balances | 372,192 | 357,184 |
| Bank overdraft | (23) | (12) |
| | 372,169 | 357,172 |

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2010.

HONG LEONG INDUSTRIES BERHAD (5486-P)
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1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standards ("FRS") 134 "Interim Financial Reporting" and the applicable disclosure provisions of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's audited financial statements for the financial year ended 30 June 2010.

The accounting policies and presentation adopted for this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2010 except for the changes in accounting policies and presentation resulting from the adoption of relevant FRSs, Amendments to FRSs and IC Interpretations that are effective for the financial periods beginning on or after 1 January 2010, 1 March 2010 and 1 July 2010 respectively.

FRS 4 and IC Interpretations 12,13,14 and 15 are not applicable to the Group. Other than as stated below, the adoption of the other FRSs, Amendments to FRSs and IC Interpretations do not has any material impact on the financial statements of the Group:

a)FRS 101: Presentation of Financial Statements (revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. The revised FRS also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements.

The group has adopted the two statements format for presentation of comprehensive income. Comparative information has been re-presented to be in conformity with the revised FRS. The revised FRS does not has any impact on the financial position and results of the Group.

b)FRS 139: Financial Instruments: Recognition and Measurement and Amendments to FRS 139: Financial Instruments: Recognition and Measurement

The Group classified its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. The classification depends on the nature of the assets and the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

The Group's non-current investments other than investments in subsidiaries, associates and jointly controlled entities were previously stated at cost less impairment losses. Following the adoption of FRS 139, these investments are now being classified as available-for-sale financial assets which are not for trading. Subsequent to initial recognition, they are measured at fair value and changes therein, other than for impairment losses, and foreign exchanges gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Prior to the adoption for FRS 139, derivative contracts were recognised in the financial statements on settlement date. With the adoption of FRS 139, derivative contracts are now recognised and measured at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with changes in fair value recognised in the income statement at each reporting date.

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1. **Basis of preparation (cont'd)**

b)FRS 139: Financial Instruments: Recognition and Measurement and Amendments to FRS 139: Financial Instruments: Recognition and Measurement (con'd)

The financial impact on the financial statements of the Group resulting from the adoption of FRS 7 and FRS 139 upon first adoption of these FRSS as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* are not disclosed by virtue of the exemptions given in the respective FRSSs.

c)Amendments to FRS 117 Lease

The Group has adopted the Amendment to FRS 117. The Group has reassessed and determined that all leasehold land which are in substance finance lease and has reclassified the leasehold land to property, plant and equipment. The adoption of these amendments will result in a change in accounting policy which has been made retrospectively in accordance with the transitional provision of the Amendment. The reclassification does not have any impact to the financial results of the Group for the current period and corresponding period of the previous financial year.

The following comparative figures has been restated following the adoption of the Amendment to FRS 117;-

| Balance Sheet as at 30 June 2010: | As previously reported RM'000 | Effect of adopting the Amendment to FRS 117 RM'000 | As restated RM'000 |
|-----------------------------------|-------------------------------------|---|-----------------------|
| Prepaid lease payments | 35,291 | (35,291) | - |
| Property, plant and equipment | 1,283,701 | 35,291 | 1,318,992 |

The Group plans to adopt from the financial year beginning 1 July 2011, those FRSSs, Amendments to FRSSs and IC Interpretations that will be effective for the annual periods beginning on or after 1 January 2011. The first adoption of those FRSSs, Amendments to FRSSs and IC Interpretations are not expected to have any material financial impact on the financial statements of the Group.

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**

There has been no material seasonal or cyclical factor affecting the results of the quarter under review.

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 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.

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

- (a) There were no shares bought back during the quarter under review and financial year-to-date. The total number of shares bought back as at 31 December 2010 was 8,432,500 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.
- (b) The Group has previously granted 2,000,000 conditional incentive share options to eligible executives of the Group ("Option Holders") pursuant to the Executive Share Option Scheme of the Company which was established on 23 January 2006 ("ESOS"), subject to the achievement of certain performance criteria over an option performance period ("Options").

At the end of the option performance period, the Option Holders fulfilled the performance criteria and accordingly, 2,000,000 Options over 2,000,000 ordinary shares of RM0.50 each ("HLI Shares") in the Company were vested to the Option Holders in the financial year ended 30 June 2009 ("Vested Options"). During the previous financial year, 1,600,000 Vested Options have lapsed. As at 31 December 2010, the balance of the Vested Options stood at 400,000.

Subsequent to the quarter under review, 36,000 Vested Options were exercised by an Option Holder at an exercise price of RM5.51 per HLI Share, satisfied by the transfer of existing HLI Shares held by the trust set up for the ESOS ("ESOS Trust") to the Option Holder pursuant to the ESOS. The remaining 364,000 Vested Options lapsed on 15 February 2011.

There were no share options granted during the quarter under review and financial year-to-date.

- (c) There were no additional shares purchased by the ESOS Trust during the quarter under review. The total number of shares purchased by the ESOS Trust ("Trust Shares") as at 31 December 2010 was 11,139,800 shares.

Subsequent to the quarter under review, 36,000 existing HLI Shares held by the ESOS Trust were transferred to an Option Holder arising from the exercise of 36,000 Vested Options at an exercise price of RM5.51 per HLI Share pursuant to the ESOS. As of to-date, the total number of shares held by the ESOS Trust was 11,103,800 HLI Shares.

There were no issuance of shares, share cancellation, resale of treasury shares nor repayment of debt or equity securities during the quarter under review and financial year-to-date.

7. Dividend paid

During the financial year-to-date, the Company paid an interim dividend of 10.0 sen per share tax exempt amounting to RM27.3 million on 22 December 2010.

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8. Operating Segments

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

| | Semi-conductor RM'000 | Consumer products RM'000 | Total RM'000 |
|-----------------------|----------------------------------|---|-------------------------|
| Segment profit | 71,926 | 106,855 | 178,781 |

Included in the measure of segment profit are:

| | | | |
|---------------------------------|---------|---------|-----------|
| Revenue from external customers | 738,048 | 827,008 | 1,565,056 |
| Depreciation and amortisation | 97,107 | 15,175 | 112,282 |

Reconciliation of reportable segment

| Profit | RM'000 |
|--|----------------|
| Reportable segment | 178,781 |
| Non-reportable segment | (11,978) |
| Unallocated income | 2,971 |
| Interest income | 1,984 |
| Finance costs | (14,291) |
| Share of profit of associated companies | 24,506 |
| Consolidated profit before taxation | 181,973 |

| | External revenue RM'000 | Depreciation and amortisation RM'000 |
|------------------------|--|---|
| Reportable segment | 1,565,056 | 112,282 |
| Non-reportable segment | 1,606 | 194 |
| Total | 1,566,662 | 112,476 |

9. Valuations of property, plant and equipment

The valuation of property, plant and equipment has 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.

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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:-

The following Company's subsidiaries has been placed under members' voluntary liquidation:-

- (a) Hong Leong Maruken Sdn Bhd, a 70% subsidiary;
- (b) Varinet Sdn Bhd, a 60% subsidiary;
- (c) Guotrade (Malaysia) Sdn Bhd, a wholly-owned subsidiary;
- (d) MZ Engineering GmbH, an indirect wholly-owned subsidiary; and
- (e) Kilatas Sdn Bhd, an indirect wholly-owned subsidiary

The liquidations are currently pending completion of legal execution proceedings against debtors and/or tax clearance from the Inland Revenue Board.

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

For the quarter under review, the Group recorded a revenue and profit before taxation ("PBT") of RM794.1 million and RM97.7 million respectively as compared with a revenue and PBT of RM717.2 million and RM83.6 million recorded in the corresponding quarter of the preceding year ("FY 2010").

For the financial year-to-date, the Group recorded a revenue and PBT of RM1,566.7 million and RM182.0 million respectively as compared with a revenue and PBT of RM1,389.2 million and RM151.2 million respectively recorded in the corresponding period of FY2010.

The improvements in revenue and PBT were mainly due to the higher sales recorded by both the semiconductor and consumer products businesses during the quarter under review.

14. Material changes in profit before taxation against the immediate preceding quarter

During the quarter under review, the Group recorded a PBT of RM97.7 million as compared with a PBT of RM84.3 million recorded in the preceding quarter. The higher PBT as compared with the preceding quarter was mainly due to the higher contribution from the consumer products business.

15. Prospects

Barring any unforeseen circumstances, the Board expects the Group's performance to be satisfactory for the financial year ending 30 June 2011.

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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 |
| | 31/12/2010 RM'000 | 31/12/2009 RM'000 | 31/12/2010 RM'000 | 31/12/2009 RM'000 |
| Current tax | | | | |
| Malaysian - current year | 7,969 | 7,778 | 20,203 | 17,356 |
| - prior years | (32) | 40 | (32) | 40 |
| Overseas - current year | 2,013 | 8 | 2,013 | 65 |
| | <u>9,950</u> | <u>7,826</u> | <u>22,184</u> | <u>17,461</u> |
| Deferred tax | | | | |
| Malaysian - current year | 1,515 | 2,250 | 3,027 | 3,564 |
| | <u>1,515</u> | <u>2,250</u> | <u>3,027</u> | <u>3,564</u> |
| | <u>11,465</u> | <u>10,076</u> | <u>25,211</u> | <u>21,025</u> |

The Group's effective tax rate is lower than the statutory tax rate due mainly to tax incentives / allowances granted to certain subsidiaries.

18. Sale of unquoted investments and/or properties

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

(b) Particulars of investments in quoted securities as at 31 December 2010:-

| | RM'000 |
|------------------|----------|
| Other investment | |
| At cost | 27 |
| At fair value | <u>4</u> |

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20. Corporate Proposals

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

Hong Leong Industries Berhad (“HLI” / the “Company”) had on 16 November 2010, announced that:

- (a) HLI had on even date entered into a conditional shares sale agreement (“SSA”) with Hong Leong Manufacturing Group Sdn Bhd (“HLMG”) (formerly known as Spectrum Arrangement Sdn Bhd) for the proposed acquisition of the entire equity interest of Hume Industries (Malaysia) Sdn Bhd (“HIMB”) (“Sale Shares”) represented by:
- 182,932,871 ordinary shares of RM1.00 each in HIMB (“HIMB Share(s)”); and
 - 10,000 Class ‘B’ ordinary shares of RM1.00 each in HIMB (“HIMB B Shares”),
- for a total purchase consideration of RM235.2 million (“Purchase Consideration”) to be satisfied by the issuance of 46,759,443 new HLI Shares (“Consideration Shares”)(“Acquisition”);
- (b) HLI had on even date entered into a conditional subscription agreement (“SA”) with Hume Cement Sdn Bhd (“Hume Cement”) and HLMG for the proposed subscription of up to 175 million 6-year 2% non-cumulative irredeemable convertible preference shares of RM1.00 each (“ICPS”) at the par value of RM1.00 each (“Subscription Price”) in Hume Cement for a total cash subscription of up to RM175 million (“Subscription”);
- (c) After the completion of the Acquisition, HLI proposes to undertake a rights issue of up to 159,736,405 new HLI shares (“Rights Shares”) on the basis of 1 Rights Share for every 2 HLI Shares held at an indicative issue price of RM1.45 per Rights Share (“Rights Issue”); and
- (d) HLI proposes to distribute up to 119,802,303 ordinary shares of RM0.50 each in Malaysian Pacific Industries Berhad (“MPI Shares”) to the shareholders of HLI on the basis of 75 MPI Shares for every 300 HLI Shares held upon completion of the Proposed Rights Issue, via a capital distribution involving a reduction of share capital and share premium reserve of the Company (“Proposed Demerger”).

The Acquisition and Subscription collectively referred to as “Proposed Building Materials Transactions”.

The Acquisition, Subscription, Rights Issue and Proposed Demerger collectively referred to as “Proposals”.

The Proposals are subject to the approval of the Company’s shareholders at an extraordinary general meeting (“EGM”), which was obtained on 21 February 2011.

The Acquisition is also conditional upon the following approvals being obtained from:

- (i) Ministry of International Trade and Industry (“MITI”), of which was obtained via its letter dated 2 February 2011;
- (ii) Bursa Malaysia Securities Berhad (“Bursa Securities”) for the listing of and quotation for the Consideration Shares on the official list of Bursa Securities, of which was obtained via its letter dated 23 December 2010; and
- (iii) shareholders of HLMG, of which was obtained on 6 December 2010; and
- (iv) any other authorities, if required.

The Subscription is also subject to MITI’s approval, which was obtained via its letter dated 2 February 2011.

The Rights Issue is also subject to the approval of Bursa Securities for the listing of and quotation for the Rights Shares on the official list of Bursa Securities, of which was obtained via its letter dated 23 December 2010.

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The figures have not been audited

20. Corporate Proposals (cont'd)

The Proposed Demerger is also subject to the following approvals being obtained:

- (i) sanction of the High Court;
- (ii) Securities Commission ("SC"), of which was obtained via its letter dated 8 February 2011;
- (iii) the SC for the proposed exemption pursuant to Practice Note 2.9.7 of the Malaysian Code on Take-Overs and Mergers, 2010, as amended from time to time and any re-enactment thereof, exempting HLMG from the obligation to extend a mandatory offer to acquire all the remaining MPI Shares not already owned by HLMG and the parties acting in concert with HLMG upon completion of the Proposed Demerger ("Proposed Exemption")
- (iv) creditors of the Company, if so directed by the High Court; and
- (v) any other authorities, if required.

The Rights Issue and Proposed Demerger are conditional on the Proposed Building Materials Transactions and upon the relevant approvals being obtained for each transaction. The Proposed Demerger will be implemented after the completion of the Acquisition and the Rights Issue.

21. Group's borrowings and debt securities

Particulars of the Group's borrowings and debt securities as at 31 December 2010 are as follows:-

| | |
|-------------------------------------|----------------|
| | RM'000 |
| (i) Unsecured short term borrowings | 433,229 |
| (ii) Unsecured long term borrowings | 318,039 |
| | <u>751,268</u> |

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

| | |
|-----|----------------|
| USD | 142,965 |
| VND | 500 |
| | <u>143,465</u> |

22. Derivative Financial Instruments

Derivative financial instruments are used to reduce exposure to fluctuations in foreign exchange 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 outstanding foreign exchange forward contracts as at 31 December 2010 are as followings:

| Type of Derivative | Nominal Value RM'000 | Net Fair Value RM'000 |
|---|----------------------------|-----------------------------|
| Foreign exchange forward contracts (less than 1 year) | <u>24,865</u> | <u>490</u> |

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22. Derivative Financial Instruments (cont'd)

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

With the adoption of FRS 139, derivative contracts are recognised and measured at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with changes in fair value recognised in the income statement at each reporting date.

23. Changes in Material Litigation

There are no material litigations as at the date of this report.

24. Dividend

(a) The Board does not recommend any interim dividend for the quarter ended 31 December 2010 of the financial year ending 30 June 2011 (2nd quarter 2009/2010: Nil).

(b) For the financial year-to-date, a total dividend of 10.0 sen per share tax exempt has been declared (2009/2010: 7.0 sen per share tax exempt).

25. Earnings Per Ordinary Share

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the quarter under review is calculated by dividing the Group's profit attributable to equity holders of the parent of RM58,813,000 (2nd quarter 2009/2010: RM50,449,000) and the weighted average number of ordinary shares during the quarter of 261,574,000 (1st quarter 2009/2010: 261,575,000).

Weighted average number of ordinary shares

| | Individual Quarter | | Cumulative Quarter | |
|--|---|--|--|---|
| | Current Year Quarter 31/12/2010 '000 | Preceding Year Corresponding Quarter 31/12/2009 '000 | Current Year- To-Date 31/12/2010 '000 | Preceding Year Correspondin g Period 31/12/2009 '000 |
| Issued ordinary shares at beginning of period | 281,145 | 281,145 | 281,145 | 281,145 |
| Treasury shares held at beginning of period | (8,431) | (8,430) | (8,431) | (8,430) |
| Trust Shares held at beginning of period | (11,140) | (11,139) | (11,140) | (11,139) |
| | 261,574 | 261,576 | 261,574 | 261,576 |
| Effect of purchase of treasury shares | - | (1) | - | (1) |
| Weighted average number of ordinary shares (basic) | 261,574 | 261,575 | 261,574 | 261,575 |

(b) Diluted earnings per ordinary share

The Group has no dilution in its earnings per ordinary share in the quarter under review / financial year-to-date and preceding year's corresponding quarter / period as the potential ordinary shares from the exercise of Options would increase the basic earnings per ordinary share.

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26. Realised and unrealised profits /losses disclosure

The retained profits as at 31 December 2010 and 30 September 2010 are analysed as follows:-

| | As At End of Current Quarter | As At End of Preceding Quarter |
|--|---------------------------------|--------------------------------------|
| | 31/12/2010 RM'000 | 30/09/2010 RM'000 |
| Total retained profits of the Company and the subsidiaries:- | | |
| -Realised | 795,259 | 808,051 |
| -Unrealised | (22,088) | (22,912) |
| | <u>773,171</u> | <u>785,139</u> |
| Total share of retained profits from associated companies: | | |
| -Realised | 85,123 | 67,375 |
| -Unrealised | 8,247 | 10,028 |
| | <u>93,370</u> | <u>77,403</u> |
| Add: Consolidated adjustments | 47,467 | 18,810 |
| Total group retained profits as per consolidated income statements | <u>914,008</u> | <u>881,352</u> |

By Order of the Board
 Hong Leong Industries Berhad

Joanne Leong Wei Yin
 Company Secretary

Kuala Lumpur
 21 February 2011