

HONG LEONG INDUSTRIES BERHAD

- (I) PROPOSED TERMINATION OF THE EXISTING EXECUTIVE SHARE OPTION SCHEME
 - (II) PROPOSED ESTABLISHMENT OF A NEW EXECUTIVE SHARE OPTION SCHEME
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1. Introduction

On behalf of Hong Leong Industries Berhad (“**HLI**” or the “**Company**”), Hong Leong Investment Bank Berhad (“**HLIB**”) wishes to announce that the Company proposes to undertake the following:

- (i) terminate the existing executive share option scheme (“**ESOS**”) of HLI, which was established in year 2006 and will expire in year 2016 (“**Proposed Termination**”); and
- (ii) establish a new ESOS of up to 10% of the issued and paid-up share capital of HLI (excluding treasury shares) (“**Proposed New ESOS**” or “**Scheme**”)

(the Proposed Termination and Proposed New ESOS are collectively referred to as the “**Proposals**”).

2. Details of the Proposals

2.1 Proposed Termination

HLI had, on 23 January 2006, established an ESOS for a period of 10 years (“**Existing ESOS**”).

Pursuant to the Existing ESOS, a subsidiary of HLI had offered options over 2,000,000 ordinary shares of RM0.50 each in HLI (“**HLI Shares**”) to executives of the said subsidiary, of which options over 36,000 HLI Shares had been exercised and the remaining options over 1,964,000 HLI Shares had lapsed upon the expiry of the options exercise period. As at 23 July 2012, there is no outstanding option for HLI Shares under the Existing ESOS.

The Company proposes to terminate the Existing ESOS in accordance with the bye-laws of the Existing ESOS, which states that the Company in general meeting may, by ordinary resolution, terminate the Existing ESOS prior to the expiry of its duration or tenure.

2.2 Proposed New ESOS

Subject and subsequent to the Proposed Termination, HLI proposes to establish a new ESOS for the benefit of executives and/or directors of HLI and its subsidiaries (“**HLI Group**”) who are eligible to participate in the Proposed New ESOS (“**Eligible Executives**”) in accordance with the bye-laws of the Proposed New ESOS.

The Proposed New ESOS will enable the Company to have a fresh duration of 10 years to implement the Scheme and to provide an opportunity for Eligible Executives who have contributed to the growth and development of the HLI Group to participate in the equity of the Company. The Proposed New ESOS will be administered by the board of directors of the Company or board of directors of the relevant subsidiary of the Company (as the case may be, in respect of Eligible Executives in the said subsidiary only) or a duly authorised committee thereof or an individual authorised by the board of directors (“**Board**”). The Board shall have the absolute discretion to impose such conditions applicable to the grant of an option (“**Option**”), as it may deem fit, including prescribing the financial and performance targets or criteria.

In implementing the Proposed New ESOS, it is the intention of the Company to have the flexibility, at the absolute discretion of the Board, to enable the satisfaction of the exercise of the Options through:

- (i) the issue of new ordinary shares of RM0.50 each in HLI (unless otherwise adjusted) ("**New HLI Shares**");
- (ii) transfer of existing HLI Shares; or
- (iii) a combination of issuance of New HLI Shares and transfer of existing HLI Shares.

In cases where Options are satisfied by the issuance of New HLI Shares, an application will be made to Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the New HLI Shares on the Main Market of Bursa Securities pursuant to the exercise of the Options.

3. Salient features of the Proposed New ESOS

3.1 Maximum amount of HLI Shares under the Proposed New ESOS

At any point in time during the existence of the Proposed New ESOS, the aggregate number of HLI Shares comprised in:

- (i) exercised Options;
- (ii) unexercised Options;
- (iii) unexpired offers of Options pending acceptance by all the Eligible Executives; and
- (iv) exercised Options, unexercised Options and unexpired offers of Options pending acceptances, under any other ESOS established by the Company which are still subsisting,

shall not exceed an amount equivalent to 10% of the issued and paid-up share capital of the Company (excluding treasury shares) at any one time ("**Maximum Aggregate**").

3.2 Eligibility

To be eligible for participation in the Proposed New ESOS, a person must be at least 18 years of age as at the date of offer of an Option ("**Date of Offer**") and satisfy the following conditions:

- (i) be an executive of HLI or any of its subsidiaries ("**Member of the Group**") and has been confirmed in service; or
- (ii) be a director of a Member of the Group.

The Board may from time to time at its discretion select and identify suitable Eligible Executives to be offered Options.

3.3 Offers

A Member of the Group may at its discretion at any time and from time to time as it shall deem fit during the existence of the Proposed New ESOS make one or more offers for an Option to an Eligible Executive. The Board may, from time to time, at its absolute discretion determine the number of HLI Shares and the terms and conditions to be comprised in an offer.

At any point in time during the existence of the Scheme, the allocation to an Eligible Executive who, either singly or collectively through persons connected with the Eligible Executive, holds 20% or more of the issued and paid-up share capital of the Company (excluding treasury shares), must not exceed 10% of the Maximum Aggregate.

3.4 Option Price

The Board may at its discretion determine the exercise price for the HLI Shares comprised in an Option ("**Option Price**") provided that the Option Price so fixed shall not be at a discount of more than 10% (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the HLI Shares preceding the Date of Offer and shall in no event be less than the par value of the HLI Shares.

3.5 Rights attaching to the HLI Shares upon the exercise of the Options

In the event that any New HLI Shares are to be allotted upon the exercise of the Options, they shall, upon issue and allotment, rank *pari passu* in all respects with the existing issued and paid-up share capital of the Company, except that they will not rank for any dividend, right, entitlement or distribution, in respect of which the record date precedes the allotment date of the New HLI Shares and will be subject to all the provisions of the Articles of Association of the Company relating to transfer, transmission or otherwise.

In the event that any existing HLI Shares are to be transferred upon the exercise of the Options, the existing HLI Shares shall be transferred together with all dividends, rights, entitlements and distributions, in respect of which the record date is on or after the transfer date.

3.6 Duration of the Proposed New ESOS

The Proposed New ESOS shall be in force for a period of 10 years from the effective date for the implementation of the Proposed New ESOS to be determined by the board of directors of the Company.

4. Utilisation of proceeds

The actual proceeds to be received pursuant to the exercise of the Options under the Proposed New ESOS will depend on the actual number of Options granted and exercised, and the Option Price payable upon the exercise of the Options. Therefore, the amount of proceeds to be raised from the exercise of the Options is not determinable at this juncture.

In the event that New HLI Shares are to be allotted upon the exercise of the Options, the proceeds from the exercise of the Options shall be utilised for the working capital of the Company.

In the event that existing HLI Shares are to be transferred upon the exercise of the Options, the proceeds from the exercise of the Options shall be utilised to pay for the cost of purchasing the said HLI Shares and/or to purchase additional HLI Shares for the purpose of the Scheme.

5. Rationale for the Proposals

The purpose of the Proposed New ESOS is to achieve the following objectives:

- (i) align the long term interests of Eligible Executives with those of the shareholders of the Company and encourage Eligible Executives to assume greater responsibility for the performance of the businesses that they manage;
- (ii) motivate Eligible Executives towards strategic business objectives;
- (iii) reward Eligible Executives with an equity stake in the success of HLI Group; and
- (iv) make the total compensation package more competitive in order to attract, retain and motivate high calibre executives.

The Proposals will provide the Company with a fresh 10 year ESOS period as compared with the remaining duration of approximately 3 years under the Existing ESOS, to facilitate the implementation of the Option plans, taking into account, inter-alia, the performance period that may be required to achieve the prescribed financial and performance targets or criteria.

6. Effects of the Proposals

6.1 Issued and paid-up share capital

The Proposed Termination will not have any effect on the issued and paid-up share capital of the Company.

The Proposed New ESOS is not expected to have any immediate effect on the issued and paid-up share capital of the Company. The issued and paid-up share capital of the Company will increase depending on the number of New HLI Shares to be issued arising from the exercise of Options. However, if existing HLI Shares are transferred to Eligible Executives pursuant to the exercise of Options under the Proposed New ESOS, there will be no effect on the issued and paid-up share capital of the Company.

6.2 Shareholdings of substantial shareholders

The Proposed Termination will not have any effect on the shareholdings of the substantial shareholders of the Company.

The Proposed New ESOS will not have any immediate effect on the shareholdings of the substantial shareholders of HLI. Any effect on the shareholdings of the substantial shareholders would depend on the number of New HLI Shares to be issued arising from the exercise of Options under the Proposed New ESOS.

6.3 Earnings

The Proposed Termination will not have any effect on the earnings of the HLI Group.

The Proposed New ESOS is not expected to have any immediate effect on the earnings of the HLI Group. Malaysian Financial Reporting Standards (MFRS) 2 issued by the Malaysian Accounting Standards Board requires the cost relating to the Options granted to be measured at the grant date and recognised as an expense over the vesting period. This would have an effect on the future earnings of HLI Group. However, the potential effect of the Proposed New ESOS on the earnings per share of the HLI Group in the future, as a consequence of the recognition of the expense at each Date of Offer, cannot be determined at this juncture as it would depend on various factors that affect the fair value of the granted HLI Shares in connection with the acceptance of offers.

6.4 Net assets (“NA”) and gearing

The Proposed Termination will not have any effect on the NA and gearing of the HLI Group based on its latest audited consolidated financial statements as at 30 June 2011.

The Proposed New ESOS is not expected to have an immediate effect on the NA and gearing of the HLI Group based on its latest audited consolidated financial statements as at 30 June 2011 until such time that the Options under the Proposed New ESOS are exercised. The effect would depend on, amongst others, the Option Price and the number of New HLI Shares to be issued upon the exercise of the Options.

6.5 Convertible securities

As at 23 July 2012, the Company does not have any outstanding convertible securities.

7. Approvals required

The Proposed Termination is subject to the approval of the shareholders of HLI.

The Proposed New ESOS is subject to the following:

- (i) approval-in-principle of Bursa Securities for the listing of and quotation for the New HLI Shares to be issued pursuant to the exercise of the Options under the Proposed New ESOS; and
- (ii) approval of the shareholders of HLI.

The Proposals are inter-conditional.

8. Interests of directors, major shareholders and/or persons connected with them

The Company proposes to seek shareholders’ approval for authority to grant Options to YBhg Dato’ Yau Kok Seng, the Group Managing Director of HLI. As such, YBhg Dato’ Yau Kok Seng, by virtue of his eligibility to participate in the Proposed New ESOS, is deemed interested in respect of his allocation under the Proposed New ESOS (“**Proposed Allocation**”).

YBhg Dato’ Yau Kok Seng has abstained and will continue to abstain from the deliberation and voting by the board of directors of HLI in respect of the Proposed Allocation.

Further, YBhg Dato’ Yau Kok Seng will abstain from voting, in respect of his direct and/or indirect interests in HLI, on the proposed ordinary resolution pertaining to the Proposed Allocation at a general meeting to be convened. YBhg Dato’ Yau Kok Seng will also ensure that persons connected with him will abstain from voting on their direct and/or indirect shareholdings, if any, on the proposed ordinary resolution pertaining to the Proposed Allocation.

The shareholding of YBhg Dato’ Yau Kok Seng in HLI as at 23 July 2012 is as follows:

Name	Direct		Indirect	
	No. of HLI Shares	%	No. of HLI Shares	%
YBhg Dato’ Yau Kok Seng	100,000	0.03	-	-

Save as disclosed above, none of the directors and major shareholders of HLI and/or persons connected with them have any interest, direct or indirect, in the Proposals.

9. Directors' recommendation

The board of directors of the Company, having considered all aspects of the Proposals (including but not limited to the rationale in respect of the Proposals), is of the opinion that the Proposals as a whole are in the best interest of HLI.

The board of directors of the Company (except for YBhg Dato' Yau Kok Seng who has abstained from expressing any opinion in relation to the Proposed Allocation), having considered all aspects of the Proposed Allocation, is of the opinion that the Proposed Allocation is in the best interest of HLI.

10. Adviser

HLIB has been appointed as the Adviser to HLI for the Proposals.

11. Estimated timeframe for submission to Bursa Securities

Barring any unforeseen circumstances, an application to Bursa Securities for the listing of and quotation for the New HLI Shares to be issued pursuant to the exercise of the Options under the Proposed New ESOS is expected to be made within 3 months from the date of this announcement.

12. Estimated timeframe for completion of the Proposals

Barring any unforeseen circumstances, HLI expects to implement the Proposals within 6 months from the date of Bursa Securities' approval for the listing application in relation to the Proposed New ESOS.

This announcement is dated 10 August 2012.