

Hong Leong Industries Berhad ("HLI" or "Company")

- Proposed acquisition of the entire equity interest in Hume Industries (Malaysia) Sdn Bhd ("HIMB") from Hong Leong Manufacturing Group Sdn Bhd (*formerly known as Spectrum Arrangement Sdn Bhd*) ("HLMG") for a total purchase consideration of RM235.2 million to be satisfied by the issuance of 46,759,443 new ordinary shares of RM0.50 each in HLI ("HLI Share(s)") at an issue price of RM5.03 per HLI Share ("Proposed Acquisition")
- Proposed subscription of up to 175 million 6-year 2% non-cumulative irredeemable convertible preference shares of RM1.00 each ("ICPS") in Hume Cement Sdn Bhd ("Hume Cement") for a total consideration of RM175 million to be satisfied by cash ("Proposed Subscription")
- Proposed renounceable 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 after the Proposed Acquisition ("Proposed Rights Issue")
- Proposed capital distribution of up to 119,802,303 ordinary shares of RM0.50 each in Malaysian Pacific Industries Berhad ("MPI"), representing 60.23% equity interest in MPI upon completion of the Proposed Acquisition and Proposed Rights Issue, to the shareholders of HLI at an entitlement date to be determined later ("Proposed Demerger")

The Proposed Acquisition, Proposed Subscription, Proposed Rights Issue and Proposed Demerger are collectively referred to as "Proposals".

1. INTRODUCTION

On behalf of the Board of Directors of HLI ("**Board**"), Hong Leong Investment Bank Berhad ("**HLIB**") is pleased to announce the following:

- (a) HLI had on 16 November 2010 entered into a conditional share sale agreement ("**SSA**") with HLMG for the proposed acquisition of the entire equity interest of 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;
- (b) HLI had on 16 November 2010 entered into a conditional subscription agreement ("**SA**") with Hume Cement and HLMG for the proposed subscription of up to 175 million ICPS at the par value of RM1.00 each ("**Subscription Price**") to be satisfied by cash;
- (c) After the completion of the Proposed Acquisition, HLI proposes to undertake a rights issue of up to 159,736,405 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; and

- (d) HLI proposes to distribute up to 119,802,303 ordinary shares of RM0.50 each in MPI (“**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 Acquisition and Proposed Rights Issue, via a capital distribution involving a reduction of share capital of HLI and reduction of the share premium reserve of the Company.

The Proposed Acquisition and Proposed Subscription are referred to as the “**Proposed Building Materials Transactions**”.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Acquisition

The Proposed Acquisition involves the acquisition by HLI from HLMG of the Sale Shares for a total purchase consideration of RM235.2 million to be satisfied via the issuance of 46,759,443 new HLI Shares at an issue price of RM5.03 per HLI Share (“**Consideration Shares**”).

In accordance with the terms of the Proposed Acquisition, HLI shall own HIMB together with its reinforced concrete division (“**RC Division of HIMB**”) and the following subsidiaries and associated company, comprising the “**Building Materials Subsidiaries**” (HIMB together with the Building Materials Subsidiaries are referred to as the “**HIMB Group**”), at completion of the SSA:

Name	Principal activities	Effective interest %
Subsidiaries		
Hume Concrete (EM) Sdn Bhd	Manufacture and sale of concrete and related products	100
Hume Concrete Marketing Sdn Bhd	Marketing of concrete and related products	100
Hume Concrete Products Research Centre Sdn Bhd	Research and development on concrete products	100
Hume Cemboard Industries Sdn Bhd	Manufacture and sale of cellulose fibre cement products	100
Malex Industrial Products Sdn Bhd and its subsidiary:	Manufacture and sale of fibre cement products and investment holding	100
• Hume Cemboard Marketing Sdn Bhd	Sale and distribution of cellulose fibre cement products	100
Hume Fibreboard Sdn Bhd [^]	Investment trading	100
Hume Roofing Products Sdn Bhd	Manufacture and sale of concrete roofing tiles	100
Associated company		
HLI-HUME Management Co Sdn Bhd (“ HHMC ”) [^]	Provision of management services	49*

Notes:

[^] Hume Fibreboard Sdn Bhd and HLI-HUME Management Co Sdn Bhd are referred as “**Non-Operating Building Materials Subsidiaries**” and the other Building Materials Subsidiaries are all “**Operating Building Materials Subsidiaries**”

* As at the date of this announcement, the remaining 51% equity interest in HHMC is held by HLI. Upon completion of the Proposed Acquisition, HHMC will be a wholly-owned subsidiary of HLI.

The RC Division of HIMB together with the Operating Building Materials Subsidiaries are involved in the businesses of manufacture and sale of concrete and related products, cellulose fibre cement products, fibre cement products and concrete roofing tiles products, and are collectively referred to as the “**Building Materials Business**”. Further information on the Building Materials Subsidiaries is set out in Appendix I.

2.1.1 Basis and justification for arriving at the Purchase Consideration

The purchase consideration of RM235.2 million is arrived at on a willing buyer-willing seller basis, after taking into consideration, amongst others, the following:

- (a) the aggregated audited profit after tax and minority interest (“**PATAMI**”) of the individual companies forming the Operating Building Materials Subsidiaries and the unaudited PATAMI of the RC Division of HIMB for the financial year ended (“**FYE**”) 30 June 2010 (“**Aggregate PATAMI of Building Materials Business**”) of RM32.725 million;
- (b) the unaudited proforma consolidated net assets (“**NA**”) of HIMB and the Building Materials Subsidiaries as at 30 June 2010 of RM239.168 million (“**Proforma Consolidated NA of HIMB**”), based on the respective individual audited NA of HIMB and the Building Materials Subsidiaries reflecting the eventual HIMB Group to be acquired pursuant to the SSA;
- (c) the potential synergistic benefits that the enlarged HLI and its subsidiaries (“**HLI Group**”) is expected to derive arising from the Proposed Acquisition; and
- (d) the potential of the building materials industry.

The Purchase Consideration represents:

- (a) a historical price to earnings multiple of approximately 7.19 times based on the Aggregate PATAMI of Building Materials Business of RM32.725 million;
- (b) a price to book ratio of 0.98 times based on the Proforma Consolidated NA of HIMB of RM239.168 million.

2.1.2 Basis of arriving at the issue price for the Consideration Shares

The issue price of RM5.03 per Consideration Share to be issued pursuant to the Proposed Acquisition was arrived at after taking into consideration the 5-day volume weighted average market price of HLI Shares up to and including 12 November 2010 (“**VWAMP**”) of RM5.03, being the last full trading date prior to the date of the SSA.

2.1.3 Ranking of Consideration Shares

The Consideration Shares shall, upon allotment and issue, rank pari passu in all respects with the then existing HLI Shares, except that they will not be entitled to any dividends, rights, allotments and/or other distributions, in respect of which the entitlement date is before the allotment date of the Consideration Shares.

The Consideration Shares shall be entitled to participate in the Proposed Rights Issue and Proposed Demerger.

2.1.4 Listing of Consideration Shares

The Company will make an application to Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the Consideration Shares to be issued pursuant to the Proposed Acquisition on the Main Market of Bursa Securities.

2.1.5 Salient terms of the SSA

(a) Agreement to sell and to purchase

Subject to the terms and conditions of the SSA, HLMG agrees to sell to HLI and HLI agrees to purchase from HLMG, the Sale Shares at the Purchase Consideration free from all claims, charges, liens, pledges, encumbrances, trusts, options and equities together with all rights, benefits, title, interest and advantages attached and all bonuses, dividends and distributions declared paid or made from the Completion Date (as defined below), subject to the completion of an internal restructuring currently being undertaken such that the HIMB Group will comprise the Building Materials Subsidiaries listed in Section 2.1 above ("**Internal Restructuring**").

(b) Purchase Consideration

Upon fulfilment of all the Conditions Precedent, HLI shall settle the Purchase Consideration by issuing the Consideration Shares to HLMG.

(c) Conditions Precedent

The Proposed Acquisition shall be conditional upon the fulfilment of the following:

- (i) approval of the Ministry of International Trade and Industry ("**MITI**") to the sale of the Sale Shares to HLI;
- (ii) approval from Bursa Securities for the listing of and quotation for the Consideration Shares on the official list of Bursa Securities;
- (iii) approval of HLI's shareholders at a general meeting to be convened;
- (iv) HLI's receipt of HLMG's members' resolution approving the Proposed Acquisition; and
- (v) completion of the Internal Restructuring.

The Conditions Precedent shall be obtained before expiry period of 6 months commencing from the date of the SSA ("**SSA's Conditional Period**").

If any of the Conditions Precedent are not fulfilled upon the expiry of the SSA's Conditional Period, either party shall be entitled by written notice to the other party either to extend the SSA's Conditional Period for the parties to fulfil the outstanding Conditions Precedent or to terminate the SSA. In the event the SSA is terminated pursuant to this section, neither party shall have any further claims or actions against the other party arising from the SSA.

(d) Completion

On a day falling within the period of 30 days from the date of fulfilment of the last of the Conditions Precedent, HLI shall issue the Consideration Shares to HLMG ("**SSA's Completion Date**").

On the SSA's Completion Date, HLMG shall deliver the original certificates and duly signed share transfer to HLI and thereafter, HLI shall effect the transfer of the Sale Shares to HLI.

(e) Other salient terms

Pending completion of the Proposed Acquisition, HIMB shall be entitled to declare cash dividend not exceeding the current year profits of HIMB for the period commencing from 1 July 2010 and ending on the SSA's Completion Date.

2.1.6 Background information on HIMB

HIMB was incorporated in the Federation of Malaya as a public company on 31 October 1961 under the name of Hume Industries (Malaya) Limited. It was listed on the then Stock Exchange of Singapore ("**SES**") and Malaysia on 29 August 1963. HIMB changed its name to Hume Industries (Malaya) Berhad on 15 April 1966 and on 29 September 1970 changed its name to Hume Industries (Malaysia) Berhad. In compliance with the Malaysian Government's policy and the listing requirements of the Kuala Lumpur Stock Exchange, it was delisted from the official list of the SES effective from 1 January 1990. HIMB was delisted from the official list of the Main Market of Bursa Securities on 21 April 2010. On 29 October 2010, HIMB was converted into a private company and assumed its present name.

As at 12 November 2010, the authorised share capital of HIMB is RM1,010,000,000 comprising 1,010,000,000 HIMB Shares. The issued and paid-up share capital of HIMB as at 12 November 2010 is RM182,942,871 comprising 182,932,871 HIMB Shares and 10,000 HIMB B Shares.

HIMB is principally engaged in the manufacture and sale of concrete products and investment holding. The principal products manufactured are piles, reinforced concrete culverts, pipes, roofing tiles and fibre cement sheets and boards. The principal market for the products is Malaysia.

Pursuant to the terms of the SSA, prior to the completion of the SSA, the subsidiaries and associated company of HIMB will comprise the Building Materials Subsidiaries which are listed in Section 2.1 above. Together with the RC Division of HIMB, HIMB Group will be principally involved in the Building Materials Business.

Please refer to Appendix I for the summary of the key audited financial information of HIMB and its Building Materials Subsidiaries, respectively.

2.1.7 Background information on the Vendor

HLMG is a company incorporated in Malaysia under the Companies Act, 1965 (“**Act**”) on 13 September 2006 under the name of Spectrum Arrangement Sdn Bhd. It assumed its present name on 20 October 2010. HLMG is an investment holding company.

As at 12 November 2010, the authorised share capital of HLMG is RM5,000,000 comprising 4,998,000 ordinary shares of RM1.00 each (“**HLMG Shares**”) and 2,000 redeemable preference shares of RM1.00 each (“**HLMG RPS**”). The issued and paid-up share capital as at 12 November 2010 is RM2,001,941 comprising 2,000,000 HLMG Shares and 1,941 HLMG RPS.

As at 12 November 2010, HLMG is a wholly-owned subsidiary of Hong Leong Company (Malaysia) Berhad (“**HLCM**”). The directors of HLMG are Tang Hong Cheong and Lim Chew Yan.

2.1.8 Carrying cost of investment

The carrying cost of investment as at to-date in the HIMB Group by HLMG is approximately RM239.2 million.

2.1.9 Additional financial commitments

There are no additional financial commitments required of HLI in putting the assets/business of HIMB Group on-stream.

2.1.10 Liabilities to be assumed

HLI will not assume any liabilities, including contingent liabilities and guarantees, pursuant to the Proposed Acquisition.

2.2 Proposed Subscription

On 16 November 2010, HLI entered into the SA with Hume Cement for the Proposed Subscription.

Hume Cement will issue and HLI will undertake the proposed subscription of up to 175 million ICPS at par value of RM1.00 per ICPS for a total subscription value of RM175 million to be satisfied by cash.

Pursuant to the terms of the SA, HLMG will be entitled to capitalize up to RM55 million of shareholders’ advance into ordinary shares of RM1.00 each in Hume Cement. Upon full conversion of the ICPS falling on the 6th anniversary date of the first Issue Date of the ICPS and assuming HLMG exercises its entitlement to capitalize the full RM55 million amount owing to it, Hume Cement will be an approximately 75%-owned subsidiary of HLI.

The principal indicative terms of the ICPS are set out in Section 2.2.7.

2.2.1 Information on Hume Cement

Hume Cement was incorporated on 8 December 1990 under the Act. As at 12 November 2010, the authorised share capital of Hume Cement is RM5,000,000 comprising 4,950,000 ordinary shares of RM1.00 each ("**Hume Cement Shares**") and 500 preference shares of RM100.00 each. The issued and paid-up share capital of Hume Cement as at 12 November 2010 is RM3,535,000 comprising 3,500,000 Hume Cement Shares and 350 redeemable preference shares of RM100.00 each ("**Hume Cement RPS**").

As at 13 November 2010, Hume Cement is a wholly-owned subsidiary of HLMG. The directors of Hume Cement are Datuk Kwek Leng San and Quah Thain Khan.

At present, Hume Cement is an investment holding company while its subsidiary is dormant. The intended principal businesses of Hume Cement are the manufacture and sale of cement and cement related products. Hume Cement's 99.97%-owned subsidiary, Tokoh Kurnia Sdn Bhd ("**Tokoh Kurnia**") owns 3 parcels of land located in Daerah Kinta, Perak Darul Ridzuan ("**Lands**"), measuring:

- (a) approximately 201,694 square metres ("**m²**") and with a 99 years' leasehold period expiring on 25 November 2096;
- (b) approximately 251,869 m² and with a 99 years' leasehold period expiring on 25 November 2096; and
- (c) approximately 2,254,706 m² and with a 60 years' leasehold period expiring on 25 November 2057

On 25 August 2010, Hume Cement entered into an engineering, procurement and construction contract ("**Turnkey Contract**") to appoint Tianjin Cement Industry Design & Research Institute Co, Ltd ("**Turnkey Contractor**") for the design, procurement, construction and commission of a new clinker and cement plant ranging from raw materials crushing to cement packing and loading, with a capacity of 5,000 tons clinker per day on the Lands ("**Cement Project**"). The Lands will supply the limestone feedstock for the Cement Project.

The construction of the Cement Project has commenced in October 2010 and due for completion in December 2012. Hume Cement is expected to commence commercial production in January 2013. The clinker capacity is 1.5 million tons per annum.

The total cost of the Cement Project is estimated to be RM700 million, to be financed by a combination of equity and borrowings, the proportion of which is to be finalised later. HLI will inject equity capital of up to RM175 million via the Proposed Subscription. The Proposed Subscription may be implemented in multiple tranches to match the Cement Project funding requirements.

Please refer to Appendix I for the summary of the key audited financial information of Hume Cement and Tokoh Kurnia.

2.2.2 Basis and justification for arriving at the Subscription Price

The subscription price of RM1.00 per ICPS for each tranche of the ICPS is arrived at on a willing buyer-willing seller basis, taking into consideration the following:

- (a) the par value of RM1.00 of the ICPS; and
- (b) the proforma NA per Hume Cement Share of RM1.01 after the capitalisation of up to RM55 million of amount owing by Hume Cement to HLMG, pursuant to the terms of the SA.

The Subscription Price represents:

- (a) a discount of 1% to the proforma NA per Hume Cement Share of RM1.01, after the capitalisation of up to RM55 million of amount owing by Hume Cement to HLMG to be satisfied by 55 million Hume Cement Shares; and
- (b) zero premium to the conversion price of the ICPS at RM1.00 per ICPS.

2.2.3 Source of funding

The Proposed Subscription is to be funded by bank borrowings and internally generated funds, of which the Board has not determined the breakdown at this juncture.

2.2.4 Additional financial commitments

There are no additional financial commitments required of HLI in putting the assets/business of Hume Cement on-stream.

2.2.5 Liabilities to be assumed

HLI will not assume any liabilities, including contingent liabilities and guarantees, pursuant to the Proposed Subscription.

2.2.6 Salient terms of the SA

(a) Agreement to issue and to subscribe

Hume Cement agrees to issue to HLI and HLI agrees to subscribe up to 175 million of ICPS at the Subscription Price free from all claims, charges, liens, pledges, encumbrances, trusts, options and equities and together with all rights, benefits, title, interest and advantages and all dividends and distributions and subject to the terms and conditions of the SA.

(b) Subscription Price

HLI shall pay the Subscription Price for each tranche of the ICPS within the period of 14 business days commencing from the date of the Subscription Notice ("**Payment Period**").

"**Subscription Notice**" means a written notice to be issued by Hume Cement to HLI informing HLI of the date of issuance of each tranche of the ICPS ("**Issue Date**") and the number of ICPS to be issued on such Issue Date.

(c) Conditions Precedent

The Proposed Subscription shall be conditional upon the following:

- (i) approval from MITI to be obtained by HLI; and
- (ii) approval of HLI's shareholders at a general meeting to be convened.

The Conditions Precedent shall be obtained before expiry period of 6 months commencing from the date of the SA or such extended period of time as may be mutually agreed by Hume Cement and HLI ("**SA's Conditional Period**").

If the above Conditions Precedent are not fulfilled upon the expiry of the SA's Conditional Period, Hume Cement and HLI shall be entitled by mutual agreement to either extend the SA's Conditional Period for Hume Cement to fulfil the above Conditions Precedent or to terminate the SA. In the event the SA is terminated pursuant to this section, neither party shall have any claims or actions against the other party arising from the SA.

(d) Covenant on Hume Cement during tenure of the ICPS

For as long as any ICPS remains unconverted, Hume Cement shall not do any of the following without the prior consent of HLI:

- (i) Hume Cement shall not change its principal business;
- (ii) Hume Cement shall not create any share ranking in any respect in priority to or pari passu with the ICPS;
- (iii) without prejudice to the foregoing, Hume Cement shall not issue or agree to issue any share or loan capital or grant or agree to grant any option over the right to acquire any share or loan capital in Hume Cement;
- (iv) Hume Cement shall not enter into any arrangement or transaction to dispose of a substantial part of its property or undertaking. For the purposes of this section, an undertaking or property shall be considered to be a substantial portion if its value exceeds 50% of the total value of assets of Hume Cement based on its latest audited accounts;
- (v) Hume Cement shall not make any alterations to the Memorandum and Articles of Association of Hume Cement which will adversely affect the rights or privileges conferred on the ICPS by the SA; and
- (vi) Hume Cement shall not declare in respect of any financial year any dividends on its ordinary shares or other preference shares exceeding, in aggregate, 50% of its profits for that financial year.

2.2.7 Principal indicative terms of the ICPS

The principal indicative terms of the ICPS are set out below:

Issuer	Hume Cement
Par Value	RM1.00 per ICPS
Issue size	Up to 175 million new ICPS. The Proposed Subscription may be implemented in multiple tranches to match the Cement Project funding requirements
Issue price	At par value of RM1.00 per ICPS

Form and denomination	The ICPS will be issued in registered form and in multiples of RM1.00 each
Ranking	The ICPS shall rank in priority to all ordinary and other preference shares of Hume Cement The ICPS are unsecured and shall rank pari passu amongst all ICPS in all respects and without discrimination preference
Redemption	The ICPS are not redeemable
Tenure/ Maturity Date	The ICPS may be issued in tranches but all ICPS shall expire on the date falling on the 6 th anniversary date of the first Issue Date
Dividend Rate	Annual non-cumulative preferential dividend rate of 2% per annum calculated based on the Par Value
Conversion Price	The conversion price is fixed at RM1.00 per ICPS
Conversion Rights	The ICPS holder shall, at any time after the expiry of the Maturity Date but not before, be entitled to convert all or any of its ICPS at the Conversion Price into new ordinary shares of RM1.00 each in Hume Cement
Voting Rights	The ICPS shall carry no right to receive notice of or attend or to vote at any general meeting of Hume Cement, save and except for any proposal to reduce the capital of Hume Cement, to dispose of the whole of Hume Cement's property, business and undertaking, voluntary liquidation of Hume Cement or any proposal which varies the rights attached to the ICPS
Transferability of ICPS	The ICPS shall not be sold, transferred, assigned, pledged or otherwise disposed of without the prior written consent of HLMG, save and except for any transfer to a related corporation (as defined in Section 6 of the Act) of HLI
Transferability of ordinary shares of Hume Cement	For as long as any ICPS remains unconverted, the ordinary shares in the capital of Hume Cement shall not be sold, transferred, assigned, pledged or otherwise disposed of without the written consent of HLI, save and except for any transfer to a related corporation (as defined in Section 6 of the Act) of HLMG
Listing	The ICPS will not be listed on Bursa Securities or any other stock exchange
Ranking of the new Hume Cement Shares	The new Hume Cement Shares to be issued upon conversion of the ICPS shall upon allotment and issue, rank pari passu with all the existing Hume Cement Shares
Priority on liquidation and on return on capital	In the event of a liquidation of Hume Cement, the holders of ICPS shall rank in priority to all holders of Hume Cement RPS and Hume Cement Shares

Participation in surplus assets and profits	Any surplus assets attributable to the holders of the ICPS, RPS and ordinary shares shall be applied on a pari passu basis and shall be paid to the holders pro rata to the amount of capital credited as paid-up in respect of ICPS, RPS and ordinary shares held by each holder
Adjustment of Conversion Price	The Conversion Price shall, where applicable, be adjusted by Hume Cement upon consultation with its advisers (auditors or merchant banks) in the event of any change in the share capital structure of Hume Cement which would have the effect of diluting the interest of the holders of the ICPS upon conversion
Governing Law	Malaysian Law

2.3 Proposed Rights Issue

The Proposed Rights Issue will be implemented after the completion of the Proposed Acquisition. As such, the Consideration Shares issued pursuant to the Proposed Acquisition shall be entitled to the Rights Shares.

2.3.1 Number of Rights Shares to be issued

As at 12 November 2010, the issued and paid-up share capital of HLI is RM140,572,933.50 comprising 281,145,867 HLI Shares including the 8,432,500 HLI Shares held as treasury shares.

Assuming that none of the treasury shares have been resold on Bursa Securities and after taking into account the 46,759,443 new Consideration Shares to be issued pursuant to the Proposed Acquisition, the Proposed Rights Issue would involve the issuance of up to 159,736,405 Rights Shares on the basis of 1 Rights Share for every 2 HLI Shares held by the shareholders of HLI whose names appear in the Record of Depositors of the Company on an entitlement date to be determined and announced later ("**Rights Entitled Shareholders**") after the Proposed Acquisition and after obtaining all the relevant approvals ("**Rights Entitlement Date**").

The Rights Entitled Shareholders can fully or partially renounce their entitlements for the Rights Shares. Any unsubscribed Rights Shares shall be offered to other Rights Entitled Shareholders and/or their renounee(s) under the excess Rights Shares application. It is the intention of the Board to allocate the excess Rights Shares in a fair and equitable manner, and on a basis to be determined by the Board and announced later by the Company.

Any fractional entitlements under the Proposed Rights Issue will be disregarded and shall be dealt with in such manner as the Board shall in its absolute discretion think expedient in the best interests of the Company.

2.3.2 Basis of determining the issue price of the Rights Shares

The final issue price of the Rights Shares will be determined and announced later by the Board after taking into account the 5-day VWAMP of HLI Shares up to and including the price-fixing date at an appropriate discount to be determined by the Board. In any case, the issue price shall not be lower than RM0.50 per Rights Share, being the par value of HLI Shares.

The indicative issue price is RM1.45 per Rights Share representing a discount of approximately 62.2% to the theoretical ex-rights price of HLI Shares of RM3.84, based on the 5-day VWAMP of HLI Shares up to and including 12 November 2010 of RM5.03.

2.3.3 Ranking of the Rights Shares

The Rights Shares shall, upon allotment and issue, rank pari passu in all respects with the then existing HLI Shares, except that they will not be entitled to any dividends, rights, allotments and/or other distributions, in respect of which the entitlement date is before the allotment date of the Rights Shares.

The Rights Shares shall be entitled to participate in the Proposed Demerger.

An application will be made for the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities.

2.3.4 Undertakings by the substantial shareholders and minimum subscription level

The Company intends to raise a minimum of RM172.5 million from the Proposed Rights Issue to meet the funding requirements of HLI Group. The Board will endeavour to procure written irrevocable undertakings from its substantial shareholders to subscribe in full for their respective entitlements under the Proposed Rights Issue.

As the Proposed Rights issue is structured on a minimum subscription level basis, HLI will not procure any underwriting agreements.

2.3.5 Utilisation of proceeds

Based on the indicative issue price of RM1.45 per Rights Share, the Proposed Rights Issue will raise gross proceeds of up to RM231.6 million and are expected to be utilised as follows:

Minimum Scenario : Assuming only HLCM and HLMG subscribes for their respective entitlement in full under the Proposed Rights Issue

Maximum Scenario : Assuming full subscription by the shareholders of HLI of their respective entitlement under the Proposed Rights Issue

Description	Minimum Scenario	Maximum Scenario
	RM'000	RM'000
Repayment of bank borrowings ⁽¹⁾	170,495	229,618
To defray estimated expenses in relation to the Proposals ⁽²⁾	2,000	2,000
	<u>172,495</u>	<u>231,618</u>

Notes:

(1) HLI is proposing to utilise the proceeds to repay bank borrowings of HLI Group.

(2) The estimated expenses include professional fees and fees payable to the authorities. Any shortfall or excess in the funds allocated for the estimated expenses will be adjusted to/from working capital of the HLI Group.

Pending the utilisation of the proceeds by HLI, the proceeds will be placed in interest-bearing deposit accounts or investments in money markets as the Board may deem fit.

2.4 Proposed Demerger

2.4.1 Basis of distribution

HLI proposes a capital distribution of up to 119,802,303 MPI Shares (“**Distribution Shares**”) to the shareholders of HLI on the basis of 75 MPI Shares for every 300 HLI Shares held in HLI after completion of the Proposed Rights Issue. The entitlement date for the Proposed Demerger will be determined later (“**Demerger Entitlement Date**”).

The basis of distribution of MPI Share per HLI Share will be finalized later after taking into consideration, the issued and paid-up share capital of HLI as at the Demerger Entitlement Date, after taking into consideration the following:

- (a) The further accumulation or disposal of treasury shares pursuant to the Company’s share buy-back scheme; and
- (b) The number of new HLI Shares to be issued pursuant to the Proposed Rights Issue.

In determining shareholders’ entitlements to the Proposed Demerger, fractional entitlements of the Distribution Shares will be disregarded and shall be dealt with in such manner as the Board shall in its absolute discretion think expedient in the best interests of the Company.

2.4.2 Method of implementation

The Proposed Demerger will be undertaken in accordance with the provisions of Section 64 of the Act via the following manner:

- (a) reduction of the share capital of the Company by cancelling the issued HLI Shares on the basis of 100 HLI Shares cancelled (“**Cancelled Share**”) for every 300 HLI Shares held in HLI after the Proposed Rights Issue, at the Demerger Entitlement Date; and
- (b) reduction of the share premium reserve of the Company by up to the remaining balance of the difference between the average cost of investment per Distribution Share and the par value of HLI Share, for each Cancelled Share.

The effect of the Proposed Demerger on a shareholder holding approximately 1,000 HLI Shares can be illustrated as follows:

Existing HLI Shares held after the Proposed Acquisition	After the Proposed Rights Issue	After the Proposed Demerger
<u>Assuming the shareholder subscribes for his entitlement of Rights Shares</u>		
1,000 HLI Shares	1,500 HLI Shares	1,000 HLI Shares 375 MPI Shares
<u>Assuming the shareholder does not subscribe for his entitlement of Rights Shares</u>		
1,000 HLI Shares	1,000 HLI Shares	667 HLI Shares 250 MPI Shares

Upon implementation of the Proposed Demerger, each shareholder of HLI will have proportionate direct interest in MPI. Upon completion of the Proposed Demerger, the HLI Group's remaining equity interest in MPI will be reduced to at least 2,236,044 representing 1.12% of the issued and paid-up share capital of MPI, which will form part of HLI Group's investment portfolio.

The Distribution Shares will be distributed free from encumbrances.

2.4.3 Proposed Exemption

Assuming all the Rights Entitled Shareholders subscribe for their respective entitlements of Rights Shares pursuant to the Proposed Rights Issue, the Proposed Demerger will result in the aggregate direct shareholdings of HLCM and the parties acting in concert with HLCM ("**PACs**") to increase to more than 33% of the issued and paid-up share capital of MPI upon completion of the Proposed Demerger.

As such, pursuant to Practice Note 2.3(4) of the Malaysian Code on Take-Overs and Mergers, 1998 ("**Code**"), HLCM and the PACs, will be required to undertake a mandatory offer on all the remaining MPI Shares not already owned by HLCM and the PACs, upon completion of the Proposed Demerger.

HLCM intends to seek an exemption from the Securities Commission pursuant to Practice Note 2.9.7 of the Code, from the obligation to extend a mandatory offer to acquire all the remaining MPI Shares not already owned by HLCM and the PACs, upon completion of the Proposed Demerger.

2.4.4 Background information on MPI

MPI was incorporated in Malaysia on 5 October 1962 as a private limited company under the name of Federal Paper Products Sdn Berhad. MPI was converted into a public company on 21 April 1969. MPI changed its name from Federal Paper Products Berhad to Malaysian Pacific Industries Berhad on 25 May 1983. MPI was admitted to the Official List of the Kuala Lumpur Stock Exchange (now known as Bursa Securities) on 29 September 1983.

As at 12 November 2010, the authorised share capital of MPI is RM200,000,000 comprising 400,000,000 MPI Shares. The issued and paid-up share capital of MPI as at 12 November 2010 is RM99,449,209.50 comprising 198,898,419 MPI Shares (excluding the 10,986,000 treasury shares held).

MPI is an investment holding company. The subsidiaries of MPI and their principal activities are shown below:

Name	Principal activities	Effective interest %
Carsem (M) Sdn Bhd	Manufacturing and testing of semiconductor devices and electronic components	70
Recams Sdn Bhd	Dormant	70
Carsem Holdings Limited	Investment holding	100
Carsem Semiconductor (Suzhou) Co., Ltd	Manufacturing and testing of semiconductor devices and electronic components	100
Dynacraft Industries Sdn Bhd	Manufacturing and sale of leadframes	100
Carter Realty Sdn Bhd	Investment holding	70

Name	Principal activities	Effective interest %
Carsem Inc.	Semiconductor devices' and electronic components' marketing agent	70
Carsem Holdings (HK) Limited	Intended to be an investment holding company	100

3. RATIONALE FOR THE PROPOSALS

3.1 Proposed Acquisition

The Proposed Acquisition will enable HLI to expand its building materials business as the HIMB Group is principally involved in (a) manufacture and sale of concrete and related products; (b) manufacture and sale of cellulose fibre cement products; and (c) manufacture and sale of concrete roofing tiles, which are complementary to the existing building materials business of HLI Group.

The enlarged HLI Group will have a broader range of building material business which will enable HLI to better serve its customers.

The Proposed Acquisition is expected to enhance the revenue and earnings base of the HLI Group and provide a steady stream of future cash flow to HLI.

3.2 Proposed Subscription

The Proposed Subscription will enable HLI Group to participate in the cement industry.

3.3 Proposed Rights Issue

After due consideration of the various fund raising methods available, the Board is of the view that the Proposed Rights Issue is currently the most appropriate avenue of fund raising after taking into consideration, amongst others, the following factors:

- (i) provides an opportunity for the Rights Entitled Shareholders to participate in an equity offering in the Company on a pro-rata basis and to subscribe for new HLI Shares at a discount to prevailing market prices;
- (ii) the funds are raised at an attractive and lower costs without incurring additional interest cost and will be utilised for working capital requirements of the HLI Group and defraying of expenses incidental to the Proposals as stated in Section 2.3.5 above; and
- (iii) the Proposed Rights Issue will involve the issuance of new HLI Shares without diluting the existing shareholders' shareholdings provided that all the Rights Entitled Shareholders subscribe for their respective entitlements.

3.4 Proposed Demerger

The Proposed Demerger will result in the demerger of MPI and its subsidiaries (“**MPI Group**”) from HLI, and is in line with HLI’s intention to streamline the operations of HLI Group and focus on the core consumer product business which comprises building materials business and motorcycles. The MPI Group is involved in manufacturing, assembling, testing and sale of integrated circuits, semiconductor devices, electronic components and leadframes to customers worldwide.

The Proposed Demerger will unlock shareholder value and will enable shareholders of HLI to have a direct equity participation in MPI.

4. OUTLOOK AND PROSPECTS

4.1 Overview and prospects of the Malaysian economy

The Malaysian economy registered a strong growth of 8.9% in the 2nd quarter of 2010, driven by sustained expansion in domestic demand and continued robust growth in external demand. The stronger domestic demand was due to higher private and public sector spending, while the expansion in external demand spurred domestic production. On the supply side, major economic sectors continued to record strong growth during the quarter, led by the manufacturing and services sectors.

The Malaysian economy recorded a strong and broad-based expansion in the second quarter, supported by improving domestic demand and robust external demand, especially from the regional economies. Going forward, the domestic economy is expected to remain strong, sustained by robust private sector demand. While external developments may result in a moderation in the pace of growth, favourable employment conditions, sustained consumer and business sentiments, moderate inflation and an accommodative policy environment are expected to encourage domestic economic activity, while external demand would continue to be supported by regional demand.

(Source: Economic and financial developments in Malaysia in the 2nd quarter of 2010, Bank Negara Malaysia)

The Malaysian economy is projected to grow by between 5% and 6% in 2011, spurred by domestic demand as the private sector takes over as the driver of growth.

Private investment activity, which turned positive in 2010, is envisaged to contribute significantly to economic growth. The idea of the private sector leading growth stems from the start of 52 private finance initiatives over the 10th Malaysia Plan (“**10MP**”) period as well as the implementation of private sector projects under the National Key Economic Areas.

Domestic demand is expected to grow by 5.8% in 2011 compared with 6.9% in 2010 which would be supported by greater dynamism of the private sector with expenditure accelerating by 7%.

With various measures taken to enhance competitiveness and productivity, growth will be driven by private investment which is seen to be expanding by 10.2% in 2011 compared with 15.2% in 2010.

(Source: The Star, 15 October 2010)

Overview and prospects of the construction industry

The construction sector expanded by 4.1% in the 2Q 2010 (1Q 10: 8.7%), supported mainly by the strong growth in the non-residential sub-sector. The strong activities in the non-residential subsector reflected the construction of office space, schools and Government quarters. Meanwhile, the continued expansion in the civil engineering subsector reflected progress in the implementation of several infrastructure projects, such as the construction of highways, the double-track rail project, the second Penang Bridge, the new Low Cost Carrier Terminal, as well as gas pipeline in Sabah and Sarawak. However, the construction of residential properties was lower during the quarter.

(Source: Developments in the Malaysian Economy 2nd Quarter 2010, Bank Negara Malaysia)

The construction sector is expected to expand by 4.4% in 2011 from 4.9% in 2010 and growth in the sector will be supported by ongoing projects such as KLIA 2, the Second Penang Bridge, SKVE Package 3, Sabah-Sarawak gas Pipeline and the LRT extensions.

In addition, growth would be supported by development projects in the 5 growth corridors as well as the implementation of new projects under the 10MP.

The residential sub-sector is envisaged to recover with developers more-than-ready to launch new projects in tandem with buying sentiment and improved economic conditions.

(Source: The Star, 15 October 2010)

4.2 Prospects of HIMB Group

HIMB Group supplies building materials predominantly to the construction industry. As such, HIMB Group's business prospects are susceptible to the performance of the construction industry and the momentum in rolling out the infrastructure initiatives announced by the Government. The roll-out of the RM1.3 trillion Economic Transformation Program ("ETP") has identified several major infrastructure and development projects (under its various Entry Point Projects) which is expected to increase demand for building materials. The HIMB Group is expected to benefit from the projects announced under the ETP, especially those requiring reinforced concrete products, as the HIMB Group offers such products specifications.

The HIMB Group is also envisaged to increase its range of building materials products offering through continuous research and development efforts and execution capability. Furthermore, the low credit cost environment is expected to augur well for the residential housing projects, which in turn will spur the demand for HIMB products, in particular roofing tiles and fibercement boards.

Taking into account the above factors and barring any unforeseen circumstances, the performance of HIMB Group is expected to be satisfactory. However, there can be no assurance that any material adverse change in the performance of the construction industry will not materially affect the financial performance of HIMB Group.

(Source: The management of HIMB)

4.3 Prospects of Hume Cement

Upon completion of the Cement Project in December 2012, Hume Cement is expected to commence commercial production in January 2013. The prospects of Hume Cement is closely related to the construction sector.

Hume Cement will be a major player in the local cement industry, where consumption of cement is projected to grow yearly with the expected roll-out of major infrastructure and development projects (both commercial and residential). Malaysia's consumption of cement per capital lag our neighboring countries, indicating room for growth of the local cement supply industry. Major industry players are currently evaluating country cement supply demand situation, with a view to expanding installed production capacity. Hume Cement will be able to leverage on HLI's established distribution channel to build up its market channels, whilst also serving the cement requirement for the enlarged HLI Group's building materials business.

(Source: The management of Hume Cement)

5. RISKS IN RELATION TO THE PROPOSALS

Save as disclosed below, the Board does not foresee any material risk pursuant to the Proposed Acquisition and Proposed Subscription except for the inherent risk factors associated with the building materials and construction industry, of which the HLI Group is already involved in, and will be addressed as part of the HLI Group's ordinary course of business.

However, no assurance can be given that any adverse development in the above areas will not affect the business, prospects and/or future financial performance of the HLI Group.

5.1 Proposed Acquisition

(a) Acquisition risk

HLI expects that the Proposed Acquisition will allow the Company to leverage on the common infrastructures to reap economies of scale and operational synergies thereby enhancing the revenue and earnings of the enlarged HLI Group. However, there is no assurance that the anticipated benefits and synergies expected from the Proposed Acquisition will be realised.

(b) Risk of non-completion

The completion of the Proposed Acquisition is subject to certain conditions which are beyond the control of HLI Group, such as the approvals of relevant authorities and shareholders. There is no assurance that the Proposed Acquisition will be completed as contemplated by the HLI Group. However, in the event any of the conditions precedent as set out in the SSA is not fulfilled by the stipulated date, the SSA will be terminated and become null and void.

5.2 Proposed Subscription

(a) Risk of non-completion of the Cement Project

As the Cement Project is in the initial stages, there is no certainty that it would be successfully completed, as successful completion is dependent on amongst others the ability of the Turnkey Contractor. Should the Turnkey Contract be terminated as a result of any breach or default by Hume Cement, the Cement Project may not be successfully completed. Hence, Hume Cement will have to incur additional cost and will lose its potential source of income.

However, the appointed Turnkey Contractor has demonstrated a good track record in delivering cement plants for major global cement players.

Although the management of HLI believes that the successful completion of the Cement Project and the commencement of commercial production by Hume Cement will generate stable future revenue stream and profits, no assurance can be given that the Cement Project will be a success.

(b) Adequate financing for the cost of the Cement Project

Although Hume Cement has obtained adequate or sufficient financing for the total cost of the Cement Project, there is no assurance that the cost will be capped at the estimated amount and as such, for Hume Cement to obtain additional financing, on favourable commercial terms, if at all. In the event Hume Cement is unable to obtain additional financing, the Cement Project may be adversely affected.

To mitigate such risk, Hume Cement has positioned itself to achieve an optimal capital structure where it will fund the Cement Project via a combination of equity and debt financing. Furthermore, the Cement Project is executed under the Turnkey Contract which is a fixed-price contract.

(d) Risk of non-completion of the Proposed Subscription

The completion of the Proposed Subscription is subject to certain conditions which are beyond the control of HLI Group, such as the approvals of relevant authorities and shareholders. There is no assurance that the Proposed Subscription will be completed as contemplated by the HLI Group. However, in the event any of the conditions precedent as set out in the SA is not fulfilled by the stipulated date, the SA will be terminated and become null and void.

(e) Cyclical nature of demand for cement

The evolution of cement consumption is dependent on the demand by the construction sector, which in turn is affected by the economic condition. An economic downturn will affect a slowdown in the construction industry, and consequently, reduces the demand of cement. As the Cement Project is expected to be completed by December 2012 and commercial production is expected to commence in January 2013, there is no assurance that the prevailing economic condition is favourable to the construction industry and the cement industry.

6. EFFECTS OF THE PROPOSALS

Minimum Scenario : Assuming only HLCM and HLMG subscribes for their respective entitlement in full under the Proposed Rights Issue

Maximum Scenario : Assuming full subscription by the shareholders of HLI of their respective entitlement under the Proposed Rights Issue

6.1 Share capital

The Proposed Subscription will not have any effect on the share capital in HLI as the total consideration will be satisfied in cash.

For illustrative purposes, the proforma effect of the Proposed Acquisition, Proposed Rights Issue and Proposed Demerger on the issued and paid-up share capital of HLI is set out below:

	Minimum Scenario		Maximum Scenario	
	No. of HLI Shares '000	RM'000	No. of HLI Shares '000	RM'000
Issued and paid-up share capital as at 12 November 2010	281,146	140,573	281,146	140,573
To be issued pursuant to the Proposed Acquisition	46,759	23,380	46,759	23,380
	327,905	163,953	327,905	163,953
To be issued pursuant to the Proposed Rights Issue	118,962 ⁽¹⁾	59,481	159,736	79,868
	446,867	223,434	487,641	243,821
Cancellation of share pursuant to the Proposed Demerger	(146,145)	(73,073)	(159,736)	(79,868)
Resultant share capital	300,722	150,361	327,905	163,953

Illustration on the number of MPI Shares to be received by the shareholders of HLI assuming all the shareholders subscribe for their respective entitlements of Rights Shares

	'000	'000
Number of MPI Shares to be distributed to the shareholders of HLI pursuant to the Proposed Demerger	109,609	119,802

Notes:

(1) The 8,432,500 HLI Shares held as treasury shares as at 12 November 2010 are not entitled for the Rights Shares and the Distribution Shares.

6.2 Substantial shareholders' shareholdings

The Proposed Subscription will not have any effect on the substantial shareholders' shareholdings in HLI. The proforma effect of the Proposed Acquisition, Proposed Rights Issue and Proposed Demerger on the substantial shareholders' shareholdings is set out below:

Minimum Scenario

Name	As at 12 November 2010				Proforma I After the Proposed Acquisition			
	Direct		Indirect		Direct		Indirect	
	No. of HLI Shares '000	% ⁽¹⁾	No. of HLI Shares '000	% ⁽¹⁾	No. of HLI Shares '000	%	No. of HLI Shares '000	%
HLCM	191,165	70.10	2,637 ⁽²⁾	0.97	191,165	59.84	49,396 ⁽²⁾	15.46
HLMG	-	-	-	-	46,759	14.64	-	-
Tan Sri Quek Leng Chan ("TSQLC")	-	-	199,083 ⁽³⁾	73.00	-	-	245,842 ⁽³⁾	76.95
HL Holdings Sdn Bhd ("HL Holdings")	-	-	193,802 ⁽⁴⁾	71.06	-	-	240,561 ⁽⁴⁾	75.30
Hong Realty (Private) Limited ("Hong Realty")	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Hong Leong Investment Holdings Pte. Ltd. ("HLIH")	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Kwek Holdings Pte Ltd ("Kwek Holdings")	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Kwek Leng Beng ("KLB")	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Kwek Leng Kee ("KLK")	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Davos Investment Holdings Private Limited ("Davos")	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Quek Leng Chye ("QLC")	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93

Name	Proforma II After Proforma I and the Proposed Rights issue				Proforma III After Proforma II and the Proposed Demerger			
	Direct		Indirect		Direct		Indirect	
	No. of HLI Shares '000	%	No. of HLI Shares '000	%	No. of HLI Shares '000	%	No. of HLI Shares '000	%
HLCM	286,747	65.40	72,776 ⁽²⁾	16.60	191,165	65.40	48,518 ⁽²⁾	16.60
HLMG	70,139	16.00	-	-	46,759	16.00	-	-
TSQLC	-	-	364,804 ⁽³⁾	83.21	-	-	243,203 ⁽³⁾	83.21
HL Holdings	-	-	359,523 ⁽⁴⁾	82.00	-	-	239,682 ⁽⁴⁾	82.00
Hong Realty	-	-	361,542 ⁽⁵⁾	82.46	-	-	241,028 ⁽⁵⁾	82.46
HLIH	-	-	361,542 ⁽⁵⁾	82.46	-	-	241,028 ⁽⁵⁾	82.46
Kwek Holdings	-	-	361,542 ⁽⁵⁾	82.46	-	-	241,028 ⁽⁵⁾	82.46
KLB	-	-	361,542 ⁽⁵⁾	82.46	-	-	241,028 ⁽⁵⁾	82.46
KLK	-	-	361,542 ⁽⁵⁾	82.46	-	-	241,028 ⁽⁵⁾	82.46
Davos	-	-	361,542 ⁽⁵⁾	82.46	-	-	241,028 ⁽⁵⁾	82.46
QLC	-	-	361,542 ⁽⁵⁾	82.46	-	-	241,028 ⁽⁵⁾	82.46

Notes:

- (1) Based on the issued and paid-up share capital of HLI of 281,145,867 HLI Shares less 8,432,500 HLI Shares held as treasury shares as at 12 November 2010
- (2) Held through subsidiaries
- (3) Held through HLCM and companies in which TSQLC and his children have interests
- (4) Held through HLCM
- (5) Held through HLCM and a company in which the substantial shareholder has interest

Maximum Scenario

Name	As at 12 November 2010				Proforma I After the Proposed Acquisition			
	Direct		Indirect		Direct		Indirect	
	No. of HLI Shares '000	% ⁽¹⁾	No. of HLI Shares '000	% ⁽¹⁾	No. of HLI Shares '000	%	No. of HLI Shares '000	%
HLCM	191,165	70.10	2,637 ⁽²⁾	0.97	191,165	59.84	49,396 ⁽²⁾	15.46
HLMG	-	-	-	-	46,759	14.64	-	-
TSQLC	-	-	199,083 ⁽³⁾	73.00	-	-	245,842 ⁽³⁾	76.95
HL Holdings	-	-	193,802 ⁽⁴⁾	71.06	-	-	240,561 ⁽⁴⁾	75.30
Hong Realty	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
HLIH	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Kwek Holdings	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
KLB	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
KLK	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
Davos	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93
QLC	-	-	195,821 ⁽⁵⁾	71.80	-	-	242,580 ⁽⁵⁾	75.93

Name	Proforma II After Proforma I and the Proposed Rights issue				Proforma III After Proforma II and the Proposed Demerger			
	Direct		Indirect		Direct		Indirect	
	No. of HLI Shares '000	%	No. of HLI Shares '000	%	No. of HLI Shares '000	%	No. of HLI Shares '000	%
HLCM	286,747	59.84	74,095 ⁽²⁾	15.46	191,165	59.84	49,396 ⁽²⁾	15.46
HLMG	70,139	14.64	-	-	46,759	14.64	-	-
TSQLC	-	-	368,763 ⁽³⁾	76.95	-	-	245,842 ⁽³⁾	76.95
HL Holdings	-	-	360,842 ⁽⁴⁾	75.30	-	-	240,561 ⁽⁴⁾	75.30
Hong Realty	-	-	363,870 ⁽⁵⁾	75.93	-	-	242,580 ⁽⁵⁾	75.93
HLIH	-	-	363,870 ⁽⁵⁾	75.93	-	-	242,580 ⁽⁵⁾	75.93
Kwek Holdings	-	-	363,870 ⁽⁵⁾	75.93	-	-	242,580 ⁽⁵⁾	75.93
KLB	-	-	363,870 ⁽⁵⁾	75.93	-	-	242,580 ⁽⁵⁾	75.93
KLK	-	-	363,870 ⁽⁵⁾	75.93	-	-	242,580 ⁽⁵⁾	75.93
Davos	-	-	363,870 ⁽⁵⁾	75.93	-	-	242,580 ⁽⁵⁾	75.93
QLC	-	-	363,870 ⁽⁵⁾	75.93	-	-	242,580 ⁽⁵⁾	75.93

Notes:

- (1) Based on the issued and paid-up share capital of HLI of 281,145,867 HLI Shares less 8,432,500 HLI Shares held as treasury shares as at 12 November 2010
- (2) Held through subsidiaries
- (3) Held through HLCM and companies in which TSQLC and his children have interests
- (4) Held through HLCM
- (5) Held through HLCM and a company in which the substantial shareholder has interest

6.3 Earnings and earnings per share (“EPS”)

Assuming the Proposed Acquisition is completed in the third quarter of financial year ending 30 June 2011, the Proposed Acquisition is not expected to contribute significantly to the earnings of HLI Group for this financial year.

The Proposed Rights Issue is not expected to have any material impact on the consolidated earnings of HLI for the financial year ending 30 June 2011 as it is only expected to be completed towards the last quarter of the financial year.

Upon completion of the Proposed Demerger, HLI would no longer be able to consolidate the profits of MPI as shareholders of HLI would be the direct shareholders of MPI.

For illustrative purposes, the proforma effects of the Proposals on the consolidated earnings and EPS of HLI based on the audited results for the FYE 30 June 2010 and assuming the Proposals had been completed on 1 July 2009 are set out as follows:

	Audited for FYE 30 June 2010 RM'000	After the Proposed Acquisition⁽¹⁾ RM'000	After the Proposals⁽²⁾ RM000
Consolidated PATAMI	194,278	230,971	167,932
No. of HLI Shares in issue ('000)	281,146	327,905	327,905
Treasury shares ('000)	(8,433)	(8,433)	(8,433)
ESOS Trust shares('000)	(11,140)	(11,140)	(11,140)
No. of HLI Shares in issue (excluding treasury shares and ESOS Trust shares)('000)	261,573	308,332	308,332
EPS (sen)	74.27	74.91	54.46

Notes:

- (1) (i) including the Aggregate PATAMI of Building Materials Business for the FYE 30 June 2010 of RM32.7 million and (ii) negative goodwill arising from the Proposed Acquisition of RM4.0 million
- (2) (i) excluding the share of PATAMI of MPI for the FYE 30 June 2010 of RM64.7 million, (ii) including after tax interest savings per annum of RM6.9 million from the proceeds from Proposed Rights Issue and (iii) including after tax interest cost per annum of RM5.3 million for the fund utilised for the Proposed Subscription

The Proposed Subscription will not have any material effect on the earnings of HLI Group for the financial year ending 30 June 2011. However, upon the conversion of the ICPS to new Hume Cement Shares at the Maturity Date, Hume Cement will become an approximately 75.0%-owned subsidiary of HLI at which point HLI would consolidate the accounts of Hume Cement.

6.4 NA

For illustrative purposes, the proforma effects of the Proposed Acquisition, Proposed Rights Issue and Proposed Demerger on the audited NA of HLI Group as at 30 June 2010, assuming the Proposed Acquisition, Proposed Rights Issue and Proposed Demerger had been completed on 30 June 2010, are set out as follows:

Minimum Scenario

	Audited as at 30 June 2010	Proforma I After the Proposed Acquisition	Proforma II After Proporma I and Proposed Rights Issue	Proforma III After Proporma II and Proposed Demerger
	RM'000	RM'000	RM'000	RM'000
Share capital	140,573	163,953	223,434	150,361
Share premium	586,926	798,746	909,760 ⁽¹⁾	395,441
Exchange equalisation reserve	(56,290)	(56,290)	(56,290)	(62,300)
Other reserves	(1,458)	(1,458)	(1,458)	19,838
Reserve for own shares	(54,374)	(54,374)	(62,450)	(54,374)
Share option reserve	442	442	442	442
Retained profits	835,850	839,818	839,818	607,181
Treasury shares – at cost	(63,318)	(63,318)	(63,318)	(63,318)
NA	1,388,351	1,627,519	1,789,938	993,271
No. of HLI Shares in issue ('000)	281,146	327,905	446,867	300,722
Treasury shares ('000)	(8,433)	(8,433)	(8,433)	(8,433)
ESOS Trust shares('000)	(11,140)	(11,140)	(16,709)	(11,140)
No. of HLI Shares in issue (excluding treasury shares and ESOS Trust shares)('000)	261,573	308,332	421,725	281,149
NA per share (RM)	5.31	5.28	4.24	3.53
NTA per share (RM)	3.60	3.78	3.15	3.40

Notes:

- (1) After taking into consideration the estimated expenses of RM2,000,000 in relation to the Proposals
- (2) Assuming the 11,139,800 HLI Shares held by the trusts which have been set up and administered by an appointed trustee, in connection with the employee share option scheme of the Company ("**ESOS Trust**") are also entitled to participate in the Proposed Rights Issue and Proposed Demerger

Maximum Scenario

	Audited as at 30 June 2010	Proforma II After Proforma I and Proposed Acquisition	Proforma III After Proforma II and Proposed Rights Issue	Proforma IV After Proforma III and Proposed Demerger
	RM'000	RM'000	RM'000	RM'000
Share capital	140,573	163,953	243,821	163,953
Share premium	586,926	798,746	948,496 ⁽¹⁾	386,345
Exchange equalisation reserve	(56,290)	(56,290)	(56,290)	(62,300)
Other reserves	(1,458)	(1,458)	(1,458)	19,838
Reserve for own shares	(54,374)	(54,374)	(62,450)	(54,374)
Share option reserve	442	442	442	442
Retained profits	835,850	839,818	839,818	607,181
Treasury shares – at cost	(63,318)	(63,318)	(63,318)	(63,318)
NA	1,388,351	1,627,519	1,849,061	997,767
No. of HLI Shares in issue (‘000)	281,146	327,905	487,641	327,905
Treasury shares (‘000)	(8,433)	(8,433)	(8,433)	(8,433)
ESOS Trust shares(‘000)	(11,140)	(11,140)	(16,709)	(11,140)
No. of HLI Shares in issue (excluding treasury shares and ESOS Trust shares)(‘000)	261,573	308,332	462,499	308,332
NA per share (RM)	5.31	5.28	4.00	3.24
NTA per share (RM)	3.60	3.78	3.00	3.12

Notes:

- (1) After taking into consideration the estimated expenses of RM2,000,000 in relation to the Proposals
(2) Assuming the 11,139,800 HLI Shares held by the ESOS Trust are also entitled to participate in the Proposed Rights Issue and Proposed Demerger

The Proposed Subscription will not have any material effect on the NA of HLI Group.

6.5 Gearing

For illustrative purposes, the proforma effects of the Proposals on the audited gearing of HLI Group as at 30 June 2010, assuming the Proposals had been completed on 30 June 2010, are set out as follows:

Minimum Scenario

	Audited as at 30 June 2010 RM'000	Proforma I After the Proposed Acquisition RM'000	Proforma II After Proforma I and Proposed Subscription RM'000	Proforma III After Proforma II and Proposed Rights Issue RM'000	Proforma IV After Proforma III and Proposed Demerger RM'000
NA	1,388,351	1,627,519	1,627,519	1,789,938	993,271
Borrowings (RM)	759,272	764,272	864,272	714,272	498,105
Gearing ratio (times)	0.55	0.47	0.53	0.40	0.50

Maximum Scenario

	Audited as at 30 June 2010 RM'000	Proforma I After the Proposed Acquisition RM'000	Proforma II After Proforma I and Proposed Subscription RM'000	Proforma III After Proforma II and Proposed Rights Issue RM'000	Proforma IV After Proforma III and Proposed Demerger RM'000
NA	1,388,351	1,627,519	1,627,519	1,849,061	997,767
Borrowings (RM)	759,272	764,272	864,272	714,272	498,105
Gearing ratio (times)	0.55	0.47	0.53	0.39	0.50

6.6 Convertible securities

As at 12 November 2010, HLI does not have any outstanding convertible securities.

7. APPROVALS REQUIRED

The Proposals are subject to the approval from the shareholders of HLI at the extraordinary general meeting (“**EGM**”) to be convened. Apart from the above:

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

- (a) MITI;
- (b) Shareholders of HLMG; and
- (c) Bursa Securities for the listing of and quotation for the Consideration Shares.

7.2 The Proposed Subscription is also subject to the approval from MITI.

7.3 The Proposed Rights Issue is also subject to approval from Bursa Securities for the listing of and quotation for the Rights Shares.

- 7.4 The Proposed Demerger is also subject to the following approvals being obtained:
- (a) Sanction of the High Court of Malaya for the reduction of the Company's share capital and share premium reserves pursuant to Sections 60(2) and 64 of the Act;
 - (b) MITI, if required; and
 - (c) creditors of HLI, if so directed by the Court.

7.5 **Inter conditionality**

The Proposed Rights Issue and Proposed Demerger are conditional on the Proposed Building Materials Transactions and upon the relevant approvals being obtained for each other.

Save for the above, there are no other conditionality to the Proposals.

8. **INTERESTS OF DIRECTORS, MAJOR SHAREHOLDER(S) AND/OR PERSONS CONNECTED TO THEM**

Save as disclosed below, none of the Directors, major shareholders and/or persons connected to them have any interest, direct or indirect, in the Proposals apart from their respective entitlements under the Proposed Rights Issue and Proposed Demerger, which are also available to the other shareholders of the Company.

The Proposed Building Materials Transactions are related party transactions pursuant to the Main Market Listing Requirements of Bursa Securities ("**Listing Requirements**"). The Interested Directors and Interested Major Shareholders of the Proposed Building Materials Transactions are set out below:

8.1 **Interested Directors**

TSQLC is a Director and deemed major shareholder of HLI. He is also a deemed major shareholder of HLMG, HIMB and Hume Cement. The shareholdings of TSQLC in HLI as at 12 November 2010 is set out in Section 8.2 below.

Datuk Kwek Leng San ("**DKLS**") is a Director of HLI, HIMB and Hume Cement. DKLS is the sibling of TSQLC. As at 12 November 2010, DKLS has direct interest of 2,520,000 HLI Shares.

TSQLC and DKLS (both referred to as the "**Interested Directors**") are deemed interested in the Proposed Building Materials Transactions. They have abstained and will continue to abstain from deliberating and voting on the relevant resolutions at the Board meetings pertaining to the Proposed Building Materials Transactions. They will also abstain from voting in respect of their direct and indirect shareholdings, if any, in HLI on the resolutions pertaining to the Proposed Building Materials Transactions to be tabled at the EGM to be convened.

In addition, the Interested Directors will ensure that persons connected to them will abstain from voting in respect of their direct and indirect shareholdings, if any, in HLI, on the resolutions pertaining to the Proposed Building Materials Transactions to be tabled at the EGM to be convened.

8.2 Interested Major Shareholders

HLCM is a direct major shareholder of HLI and HLMG and a deemed major shareholder of HIMB and Hume Cement, and as such, is interested in the Proposed Building Materials Transactions.

The shareholdings of HLCM and TSQCL in HLI as at 12 November 2010 are as follows:

Name	Direct		Indirect	
	No. of HLI Shares '000	%	No. of HLI Shares '000	%
HLCM	191,165	70.10	2,637 ⁽¹⁾	0.97
TSQCL	-	-	199,083 ⁽²⁾	73.00

Notes:

(1) Held through subsidiaries

(2) Held through HLCM and companies in which TSQCL and his children have interests

HLCM and TSQCL will abstain from voting in respect of their direct and indirect shareholdings, in HLI on the resolutions pertaining to the Proposed Building Materials Transactions to be tabled at the EGM to be convened. They will ensure that persons connected to them will abstain from voting in respect of their direct and indirect shareholdings, if any, in HLI, on the resolutions pertaining to the Proposed Building Materials Transactions to be tabled at the EGM to be convened.

9. STATEMENT BY THE AUDIT COMMITTEE

The Audit Committee, having considered all aspects of the Proposed Building Materials Transactions, is of the opinion that the Proposed Building Materials Transactions are in the best interest of HLI, fair, reasonable and on normal commercial terms and not detrimental to the interests of the non-interested shareholders of HLI.

The Audit Committee has sought the preliminary opinion of the Independent Adviser, namely Alliance Investment Bank Berhad, in forming its views in relation to the Proposed Building Materials Transactions and has concurred with the Independent Adviser's views that the terms and conditions of the Proposed Building Materials Transactions are fair and reasonable and are not detrimental to the interest of the non-interested shareholders of HLI.

10. DIRECTORS' STATEMENT

Save for the Interested Directors, the Board is of the opinion that the Proposed Building Materials Transactions are in the best interests of HLI.

The Board is of the opinion that the Proposed Rights Issue and Proposed Demerger are in the best interest of HLI.

11. ADVISER

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

In view of the interests of certain Directors and major shareholder as set out in Section 8 above, the Proposed Building Materials Transactions are deemed to be related party transactions pursuant to paragraph 10.08 of the Listing Requirements. In this respect, Alliance Investment Bank Berhad has been appointed by the Company to act as the Independent Adviser to advise the non-interested Directors and shareholders of HLI as to whether the Proposed Building Materials Transactions are fair and reasonable as far as the non-interested shareholders are concerned and whether the Proposed Building Materials Transactions are to the detriment of the non-interested shareholders.

12. PERCENTAGE RATIO APPLICABLE TO THE PROPOSALS

Based on the audited consolidated financial statements of HLI for the FYE 30 June 2010, the highest percentage ratio applicable to the Proposed Building Materials Transactions pursuant to Paragraph 10.02(g) of the Listing Requirements and the principles of aggregation is 29.90%.

The total recurrent related party transactions by HLI and its subsidiaries with HLMG for the FYE 30 June 2010 is RM163.1 million. Save for recurrent related party transactions as mentioned above, HLI did not enter into any transactions with HLMG for the preceding 12 months up to the date of this announcement.

13. APPLICATION TO THE RELEVANT AUTHORITIES AND EXPECTED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the submission to the relevant authorities will be made within 6 months from the date of this announcement.

Subject to the relevant approvals, the Proposals are expected to be completed by the 2nd quarter of 2011.

14. DOCUMENTS AVAILABLE FOR INSPECTION

The SSA in respect of the Proposed Acquisition and the SA in respect of the Proposed Subscription are available for inspection at the registered office of HLI during office hours from Mondays to Fridays (except for public holidays) at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur for a period of 3 months from the date of this announcement.

This announcement is dated 16 November 2010.

1. Further information on HIMB and the Building Materials Subsidiaries

Name	Principal products manufactured or services rendered	Principal markets for the products or services
HIMB	Piles, reinforced concrete culverts, pipes, roofing tiles and fibre cement sheets and boards	Malaysia
Subsidiaries		
Hume Concrete (EM) Sdn Bhd	Piles, reinforced concrete culverts and pipes	Malaysia
Hume Concrete Marketing Sdn Bhd	Marketing of concrete and related products	Malaysia
Hume Concrete Products Research Centre Sdn Bhd	Research and development on concrete products	Malaysia
Hume Cemboard Industries Sdn Bhd	Cement bonded wood particle boards and cellulose fibre cement sheets and boards	Malaysia and export markets
Malex Industrial Products Sdn Bhd and its subsidiary:	Cellulose fibre cement sheets and board	Malaysia
<ul style="list-style-type: none"> • Hume Cemboard Marketing Sdn Bhd 	Sale and distribution of cellulose fibre cement products	Malaysia
Hume Fibreboard Sdn Bhd	Investment trading	
Hume Roofing Products Sdn Bhd	Concrete roof tiles	Malaysia
Associated company		
HLI-HUME Management Co Sdn Bhd	Provision of management services	Malaysia

Summary of the key audited financial information of the HIMB Group for the past 3 years

HIMB

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	254,020	349,980	185,588
Profit before tax ("PBT")	53,063	127,980	24,258
PATAMI	65,635	127,398	23,854
NA	694,395	803,493	498,222

The fluctuation in revenue and profitability were mainly due to dividend declaration from its subsidiaries.

Building Material Subsidiaries

Hume Concrete (EM) Sdn Bhd

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	30,192	26,974	21,918
PBT	782	1,369	1,864
PATAMI	450	1,195	1,488
NA	5,604	6,800	8,287

Hume Concrete Marketing Sdn Bhd

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	229,882	224,902	188,415
PBT/(loss) before tax	2,656	2,001	(222)
PATAMI	2,128	1,486	17
NA	6,908	8,394	8,411

Hume Concrete Products Research Centre Sdn Bhd

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	522	632	615
(Loss) before tax	(51)	(15)	-
(Loss) after tax and minority interest	(51)	(15)	-
NA	648	633	633

Hume Cemboard Industries Sdn Bhd

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	160,763	160,859	166,517
PBT/(loss) before tax	(7,003)	18,062	17,636
PATAMI/(loss) after tax and minority interest	(5,536)	14,057	14,586
NA	88,059	98,216	102,802

Malex Industrial Products Sdn Bhd ("MIP")

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	64,517	83,435	49,083
PBT	11,763	25,157	10,822
PATAMI	8,771	22,048	7,370
NA	28,696	26,744	34,114

Hume Cemboard Marketing Sdn Bhd

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	103,125	112,125	111,640
PBT	9,934	6,561	6,617
PATAMI	7,401	4,870	4,948
NA	15,358	8,228	13,176

Hume Fibreboard Sdn Bhd ("HFB")

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	206,006	61,579	868
PBT	11,170	81,278	863
PATAMI	11,170	81,278	863
NA	100,686	63,264	60,127

Hume Roofing Products Sdn Bhd (“HRP”)

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	-	-	19,691
PBT/(loss) before tax	5	(220)	2,781
PATAMI/(loss) after tax and minority interest	(34)	(217)	2,950
NA	995	778	16,728

HLI-HUME Management Co Sdn Bhd

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	4,639	4,418	4,790
PBT	178	178	19
PATAMI/(loss) after tax and minority interest	122	182	(25)
NA	670	853	828

Commentary on the Building Materials Subsidiaries:

Save as disclosed below, there are no major fluctuation in the financial performance of the Building Materials Subsidiaries.

The fluctuation in revenue and profitability of the Building Materials Business is mainly due to the cyclical nature of the building materials industry in which they operate.

The specific fluctuations are as follows:

- (a) MIP and HRP
The fluctuation in revenue and profitability of MIP and HRP in FYE 30 June 2010 were mainly due to the transfer of the concrete roofing tiles business from MIP to HRP.
- (b) HFB
The sharp decrease in revenue in FYE 30 June 2009 was due to the disposal of its medium density fibreboard business (“**MDF Business**”) in September 2008. Correspondingly, PBT increased significantly in FYE 30 June 2009, due to the gain on the disposal of MDF Business.

2. **Summary of the key audited financial information of the Hume Cement and its subsidiary, Tokoh Kurnia for the past 3 years**

Hume Cement

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	-	-	-
(Loss) before tax	(767)	(1,349)	(745)
(Loss) after tax and minority interest	(767)	(1,349)	(745)
NA	308	(1,041)	(1,786)

Tokoh Kurnia

FYE 30 June	Audited		
	2008 RM'000	2009 RM'000	2010 RM'000
Revenue	-	-	-
(Loss) before tax	(600)	(680)	(661)
(Loss) after tax and minority interest	(600)	(680)	(661)
NA	789	109	23,531

Commentary:

Hume Cement and Tokoh Kurnia have not commenced operation since their inception. Loss after tax and minority interest was mainly attributed to operating expenses incurred.