



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

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**

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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	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)	1,388,351	638,094	2,026,445
At 1 July 2010	-	-	(17,788)	-	-	-	86,527	50,231	136,758
Total comprehensive income for the period	-	-	-	-	-	-	(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)	1,444,816	627,513	2,072,329

**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 CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2010 (Cont'd)

	←----- Attributable to equity holders of the parent ----->						Total equity RM'000
	Share capital RM'000	Share premium RM'000	Non-distributable			Distributable	
	Share option reserve RM'000	Treasury shares RM'000	Retained profits RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000	
Preceding year corresponding period ended 31 December 2009							
At 1 July 2009	140,573	586,926	(28,479)	(54,374)	1,068	(63,309)	1,268,803
Total comprehensive income for the period	-	-	(14,902)	-	-	-	76,069
Dividend paid	-	-	-	-	-	-	(18,310)
Purchase of treasury shares	-	-	-	-	-	(5)	(5)
Transfer to capital redemption reserves	-	-	61	-	-	-	-
Share-based payments	-	-	(330)	-	62	-	(83)
At 31 December 2009	140,573	586,926	(43,650)	(54,374)	1,130	(63,314)	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.

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

The figures have not been audited

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 have 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 have 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 exchange 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.

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

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.

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

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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.

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

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.

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

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.

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

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>

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

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.

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

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-Over 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>

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

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.

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

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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