



Hong Leong Industries

A Member of the Hong Leong Group Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2007

The figures have not been audited

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE QUARTER ENDED 31 DECEMBER 2007

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	(Restated) Preceding Year Corresponding Quarter	Current Year- To-Date	(Restated) Preceding Year Corresponding Period
	31/12/2007 RM'000	31/12/2006 RM'000	31/12/2007 RM'000	31/12/2006 RM'000
Revenue	781,886	687,327	1,521,081	1,431,225
Cost of sales	(620,664)	(570,699)	(1,234,633)	(1,166,575)
Gross profit	161,222	116,628	286,448	264,650
Operating expenses	(44,674)	(42,917)	(87,815)	(86,782)
Other operating (expenses) / income	(7,380)	1,928	(10,487)	3,034
Interest income	1,674	1,628	3,067	3,260
Finance costs	(13,295)	(18,266)	(25,894)	(37,001)
Share of profit of associated companies	8,521	16,159	19,506	26,066
Profit before taxation	106,068	75,160	184,825	173,227
Taxation	(10,594)	(6,194)	(23,851)	(18,610)
Profit for the period	95,474	68,966	160,974	154,617
Attributable to:				
Equity holders of the parent	53,125	40,991	90,779	86,597
Minority interests	42,349	27,975	70,195	68,020
Profit for the period	95,474	68,966	160,974	154,617
Earnings per ordinary share (sen) :-				
(a) Basic	20.22	16.41	34.55	34.68
(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 2007.

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HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

The figures have not been audited

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2007

	As At End of Current Quarter	(Restated) As At End of Preceding Financial Year
	31/12/2007 RM'000	30/06/2007 RM'000
Non-current assets		
Property, plant and equipment	1,445,404	1,360,097
Prepaid lease payments	30,544	30,712
Investments in associated companies	408,866	395,230
Other investments	1,351	1,351
Intangible assets	462,964	458,192
Deferred tax assets	461	461
	<u>2,349,590</u>	<u>2,246,043</u>
Current assets		
Inventories	232,959	228,093
Trade and other receivables	525,549	461,053
Tax recoverable	35,613	30,933
Short term investments	27	27
Deposits, cash and bank balances	189,329	296,400
	<u>983,477</u>	<u>1,016,506</u>
TOTAL ASSETS	<u>3,333,067</u>	<u>3,262,549</u>
Equity attributable to equity holders of the parent		
Share capital	140,573	140,573
Reserves	1,068,383	990,649
Treasury shares - at cost	(63,298)	(63,294)
	<u>1,145,658</u>	<u>1,067,928</u>
Minority interests	656,114	618,135
TOTAL EQUITY	<u>1,801,772</u>	<u>1,686,063</u>
Non-current liabilities		
Borrowings	219,375	294,810
Redeemable Bonds	-	250,000
Deferred tax liabilities	63,535	55,051
Retirement benefits	11,388	10,962
	<u>294,298</u>	<u>610,823</u>
Current liabilities		
Trade and other payables	486,335	427,457
Short term borrowings and overdraft	483,143	527,126
Redeemable Bonds	250,000	-
Taxation	17,519	11,080
	<u>1,236,997</u>	<u>965,663</u>
TOTAL LIABILITIES	<u>1,531,295</u>	<u>1,576,486</u>
TOTAL EQUITY AND LIABILITIES	<u>3,333,067</u>	<u>3,262,549</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	4.36	4.06

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2007.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2007

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2007

	Share capital RM'000	Attributable to equity holders of the parent						Total RM'000	Minority interests RM'000	Total equity RM'000
		Share premium RM'000	Other reserves RM'000	Reserve for own shares RM'000	Share option reserve RM'000	Retained profits RM'000	Treasury shares RM'000			
Current year-to date ended 31 December 2007	140,573	586,926	(43,885)	(49,763)	626	496,745	(63,294)	1,067,928	618,135	1,686,063
Net profit for the period	-	-	-	-	-	90,779	-	90,779	70,195	160,974
Dividend paid	-	-	-	-	-	(9,720)	-	(9,720)	(30,892)	(40,612)
Purchase of additional shares in a subsidiary company	-	-	-	-	-	-	-	-	(2,689)	(2,689)
Foreign currency translation differences	-	-	(4,261)	-	-	-	-	(4,261)	1,107	(3,154)
Purchase of treasury shares	-	-	-	-	-	-	(4)	(4)	-	(4)
Share-based payment	-	-	354	-	582	-	-	936	258	1,194
At 31 December 2007	140,573	586,926	(47,792)	(49,763)	1,208	577,804	(63,298)	1,145,658	656,114	1,801,772

199

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2007

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2007 (Cont'd)

Attributable to equity holders of the parent

	Share capital	Share premium	Other reserves	Reserve for own shares	Share option reserve	Retained profits	Treasury shares	Total	ICULS	Minority interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Preceding year corresponding period ended 31 December 2006	112,995	294,301	(20,772)	-	-	392,907	(63,283)	716,148	202,817	600,671	1,519,636
At 1 July 2006	-	-	-	-	-	(325)	-	(325)	-	(225)	(550)
As previously reported	-	-	(24,152)	(17,662)	-	6,884	-	(34,930)	-	(17,137)	(52,067)
Prior year adjustments:											
Effect of adoption of FRS 5 "Non-Current Assets Held for Sale and Discontinued Operation"											
Effect of adoption of IC Interpretation 112 "Consolidation - Special Purpose Entities"											
As restated	112,995	294,301	(44,924)	(17,662)	-	399,466	(63,283)	680,893	202,817	583,309	1,467,019
Net profit for the period	-	-	-	-	-	86,597	-	86,597	-	68,020	154,617
Dividend paid	-	-	-	-	-	(7,945)	-	(7,945)	-	(35,845)	(43,790)
Interest on ICULS	-	-	-	-	-	(4,036)	-	(4,036)	-	-	(4,036)
Disposal of a subsidiary company	-	-	-	-	-	-	-	-	-	(209)	(209)
Purchase of additional shares in a subsidiary company	-	-	-	-	-	-	-	-	-	(7,834)	(7,834)
Foreign currency translation differences	-	-	(1,752)	-	-	-	-	(1,752)	-	-	(1,752)
Purchase of treasury shares	-	-	-	-	-	-	(6)	(6)	-	-	(6)
Transfer to capital reserves	-	-	100	-	-	(100)	-	-	-	-	-
Conversion of ICULS into ordinary shares	335	3,821	-	-	-	-	-	4,156	(4,156)	-	-
Changes in ESOS Trust	-	-	(75)	(31,913)	-	22	-	(31,966)	-	732	(31,234)
At 31 December 2006	113,330	298,122	(46,651)	(49,575)	-	474,004	(63,289)	725,941	198,661	608,173	1,532,775

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 2007.

12

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

The figures have not been audited

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2007

	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2007 RM'000	31/12/2006 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	184,825	173,227
Adjustments for:-		
Share of profit of associated companies	(19,506)	(26,066)
Depreciation and amortisation	127,824	133,077
Non cash items	2,532	7,014
Net financing costs	22,827	33,741
Operating profit before changes in working capital	318,502	320,993
Changes in working capital		
Net change in current assets	(67,848)	(24,473)
Net change in current liabilities	58,442	(78,910)
Net income taxes paid	(13,608)	(9,924)
Other operating income received	515	424
Net financing costs paid	(22,827)	(33,741)
Net cash generated from operating activities	273,176	174,369
CASH FLOWS FROM INVESTING ACTIVITIES		
Equity investments	(6,784)	(21,298)
Other investments	(213,875)	(137,830)
Net cash used in investing activities	(220,659)	(159,128)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(40,612)	(43,790)
ICULS interest paid	-	(4,036)
Net repayments of borrowings	(123,307)	(62,503)
Purchase of treasury shares	(14)	(36)
Purchase of Trust Shares	-	(31,913)
Net cash used in financing activities	(163,933)	(142,278)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(111,416)	(127,037)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	295,767	252,245
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(523)	157
CASH & CASH EQUIVALENTS AT END OF PERIOD	183,828	125,365

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

	31/12/2007 RM'000	31/12/2006 RM'000
Deposits, cash and bank balances	189,329	126,760
Bank overdraft	(5,501)	(1,395)
	183,828	125,365

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2007.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

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 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 2007.

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 2007 except for the changes in accounting policies and presentation resulting from the adoption of applicable FRSs adopted by the Malaysian Accounting Standards Board that are effective for the financial period beginning after 1 October 2006 and 1 July 2007 as follows:-

Standard/Interpretation		Effective date
FRS 107	Cash Flow Statements	1 July 2007
FRS 112	Income Taxes	1 July 2007
FRS 117	Leases	1 October 2006
FRS 118	Revenue	1 July 2007
FRS 119	Employee Benefits	1 July 2007
FRS 124	Related Party Disclosures	1 October 2006
FRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007

The adoption of FRSs 107, 112, 118, 119, 124, 137 and Amendment to FRS 121 do not have any significant financial impact on the Group.

The adoption of FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold land. The up-front payments made for the leasehold land are classified as prepaid lease payments and are amortised on a straight-line basis over the remaining lease term of the land. Where the leasehold land had been previously revalued, the unamortized revalued amount of leasehold land is retained as surrogate carrying amount of the prepaid lease payments as allowed by the transitional provisions of FRS 117.

Prior to 1 July 2007, leasehold lands were classified as property, plant and equipment and were stated at cost / valuation less accumulated depreciation and accumulated impairment.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

The figures have not been audited

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

The following comparatives have been restated due to the adoption of FRS 117 which has an retrospective impact on the preceding period's financial statements:-

Condensed Consolidated Balance Sheet

	At 30 June 2007		
	As Previously Reported RM'000	Adoption of FRS 117 RM'000	As Restated RM'000
Property, plant and equipment	1,390,809	(30,712)	1,360,097
Prepaid lease payments	-	30,712	30,712

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

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

3. **Seasonality or cyclicity of interim operations**

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

4. **Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence**

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence during the financial year-to-date.

5. **Changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years**

There were no changes in estimates of amounts reported in the prior financial years.

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

(a) During the quarter under review and financial year-to-date, the Company bought back 1,000 of its own shares from the open market for a total consideration of RM4,220. The total number of shares bought back as at 31 December 2007 was 8,427,500 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.

(b) There were no share options granted during the quarter under review and financial year-to-date. As at 31 December 2007, the Group granted 2,000,000 conditional incentive share options ("Options") to eligible executives of the Group pursuant to the Executive Share Option Scheme ("ESOS") of the Company which was established on 23 January 2006, subject to the achievement of certain performance criteria over an option performance period.

(c) There were no additional shares purchased by the trust set up for the ESOS ("ESOS Trust") during the quarter under review and financial year-to-date. The total number of shares purchased by the ESOS Trust as at 31 December 2007 was 10,000,000 shares ("Trust 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.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

The figures have not been audited

7. Dividend paid

During the financial year-to-date, the Company paid a first interim dividend of 5.0 sen per share less tax amounting to RM9.7 million on 28 December 2007.

8. Segmental reporting

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

	Semi-conductor	Motorcycles	Building materials	Others & Investment holdings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	809,611	402,075	308,398	997	1,521,081
Results					
Segment results	115,565	62,457	15,001	(4,877)	188,146
Share of profit of associated companies	-	22,234	-	(2,728)	19,506
	115,565	84,691	15,001	(7,605)	207,652
Interest income					3,067
Finance costs					(25,894)
Profit before taxation					184,825
Taxation					(23,851)
Profit for the period					160,974

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.

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 had been placed under member's voluntary liquidation pursuant to Section 254(1)(b) of the Companies Act, 1965:-

- (a) Hong Leong Maruken Sdn Bhd, a 70% subsidiary;
- (b) Varinet Sdn Bhd, a 60% subsidiary;
- (c) Allied Auto Parts Sdn Bhd, a 69.4% subsidiary;
- (d) Guolene Paper Products Sdn Bhd, a wholly-owned subsidiary of the Company

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

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

The figures have not been audited

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 RM781.9 million and RM106.1 million respectively as compared with a revenue and PBT of RM687.3 million and RM75.2 million respectively recorded in the preceding year's corresponding quarter.

The higher PBT as compared with the preceding year's corresponding quarter was mainly attributable to the improvement in profits of the semiconductor and motorcycles businesses due to the higher sales achieved which was partly offset by the lower profit contribution from the associated companies.

For the financial year-to-date, the Group recorded a PBT of RM184.8 million as compared with a PBT of RM173.2 million recorded in the preceding year's corresponding period. The higher PBT as compared with the preceding year's corresponding period was mainly attributable to the improvement in profits of the motorcycles business as a result of higher demand in the domestic market.

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

The Group's PBT increased to RM106.1 million from a PBT of RM78.8 million recorded in the preceding quarter. The increase is mainly attributable to the improvement in profit of the semiconductor business due to the higher sales achieved.

15. Prospects

Barring any unforeseen circumstances, the Board expects the Group's performance to be satisfactory for the current financial year ending 30 June 2008.

16. Profit forecast / profit guaranteed

This note is not applicable.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

The figures have not been audited

17. **Taxation**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2007 RM'000	31/12/2006 RM'000	31/12/2007 RM'000	31/12/2006 RM'000
Current tax				
Malaysian				
- current	6,300	(718)	15,563	8,772
- prior years	36	21	(196)	21
Overseas - current	-	403	-	709
	<u>6,336</u>	<u>(294)</u>	<u>15,367</u>	<u>9,502</u>
Deferred tax				
Malaysian				
- current	4,258	6,488	9,784	9,108
- prior years	-	-	(1,300)	-
	<u>4,258</u>	<u>6,488</u>	<u>8,484</u>	<u>9,108</u>
	<u>10,594</u>	<u>6,194</u>	<u>23,851</u>	<u>18,610</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 2007:-

	RM'000
Short term investment	
At cost	27
At book value	<u>27</u>
At market value	<u>8</u>

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

The figures have not been audited

20. Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this report.

21. Group's borrowings and debt securities

Particulars of the Group's borrowings and debt securities as at 31 December 2007 are as follows:-

	RM'000
(i) Unsecured short term borrowings and overdraft	733,143
(ii) Unsecured long term borrowings	219,375
	<u>952,518</u>

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

USD borrowings	91,289
Euro borrowings	7,718

22. Financial Instruments with Off Balance Sheet Risk

Derivative financial instruments are used to reduce exposure to fluctuations in foreign exchange rates and interest rates. While these are subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

Financial instruments are viewed as risk management tools by the Group and are not used for trading or speculative purposes.

The financial instruments with off balance sheet risk as at 19 February 2008 are as follows:-

	Contract amount
	RM'000
Foreign exchange forward contracts	<u>32,535</u>

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

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

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

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

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23. Changes in Material Litigation

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

24. Dividend

- (a) The Board does not recommend any interim dividend for the quarter ended 31 December 2007 of the financial year ending 30 June 2008 (2006/2007: nil).
- (b) For the financial year-to-date, a total gross dividend of 5.0 sen per share less tax has been declared (2006/2007: 5.0 sen per share less tax).

25. Earnings Per Ordinary Share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the quarter under review is based on the profit attributable to equity holders of the parent of RM53,125,000 (2006/2007: net profit of RM40,991,000) and the weighted average number of ordinary shares during the quarter of 262,719,000 (2006/2007: 244,200,000 (restated)).

The calculation of basic earnings per ordinary share for the financial year-to-date is based on the profit attributable to equity holders of the parent of RM90,779,000 (2006/2007: of RM86,597,000) and the weighted average number of ordinary shares during the period of 262,719,000 (2006/2007: 245,112,000 (restated)).

Weighted average number of ordinary shares

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2007 '000	31/12/2006 '000	31/12/2007 '000	31/12/2006 '000
Issued ordinary shares at beginning of period	262,719	212,571	262,719	213,735
Effect of assumed mandatory conversion of ICULS into ordinary shares	-	32,632	-	32,712
Effect of purchase of treasury shares	-	(1)	-	-
Effect of purchase of Trust Shares	-	(1,002)	-	(1,335)
Weighted average number of ordinary shares (basic)	262,719	244,200	262,719	245,112

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2007

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25. Earnings Per Ordinary Share (Cont'd)

Diluted earnings per ordinary share

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

The Group had no dilution in its earnings per ordinary share in the preceding year's corresponding quarter/period as there were no dilutive potential ordinary shares. Therefore, no consideration for adjustment in the form of increase in the number of shares was used in calculating the potential dilution of its earnings per share.

By Order of the Board
Hong Leong Industries Berhad

Joanne Leong Wei Yin
Company Secretary

Kuala Lumpur
26 February 2008