



Hong Leong Industries

A Member of the Hong Leong Group Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2008

The figures have not been audited

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE QUARTER ENDED 31 DECEMBER 2008

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year-To-Date	Preceding Year Corresponding Period
	31/12/2008 RM'000	31/12/2007 RM'000	31/12/2008 RM'000	31/12/2007 RM'000
Revenue	683,255	781,886	1,509,031	1,521,081
Cost of sales	(599,646)	(620,664)	(1,283,488)	(1,234,633)
Gross profit	83,609	161,222	225,543	286,448
Operating expenses	(41,397)	(44,674)	(85,135)	(87,815)
Other operating expenses	(23,827)	(7,380)	(30,235)	(10,487)
Operating profit	18,385	109,168	110,173	188,146
Interest income	2,156	1,674	4,219	3,067
Finance costs	(9,622)	(13,295)	(20,295)	(25,894)
Share of profit of associated companies	5,642	8,521	10,520	19,506
Profit before taxation	16,561	106,068	104,617	184,825
Taxation	(6,546)	(10,594)	(20,829)	(23,851)
Profit for the period	10,015	95,474	83,788	160,974
Attributable to:				
Equity holders of the parent	15,964	53,125	63,231	90,779
Minority interests	(5,949)	42,349	20,557	70,195
Profit for the period	10,015	95,474	83,788	160,974
Earnings per ordinary share (sen) :-				
(a) Basic	6.10	20.22	24.17	34.55
(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 2008.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2008

The figures have not been audited

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2008

	As At End of Current Quarter	As At End of Preceding Financial Year
	31/12/2008 RM'000	30/06/2008 RM'000
Non-current assets		
Property, plant and equipment	1,368,533	1,389,205
Prepaid lease payments	37,197	37,294
Investments in associated companies	399,446	403,697
Other investments	1,351	1,351
Intangible assets	481,800	482,477
Deferred tax assets	1,127	1,127
	<u>2,289,454</u>	<u>2,315,151</u>
Current assets		
Inventories	253,104	213,039
Trade and other receivables	442,830	525,226
Tax recoverable	26,207	23,198
Short term investments	7	7
Deposits, cash and bank balances	221,503	268,023
	<u>943,651</u>	<u>1,029,493</u>
TOTAL ASSETS	<u>3,233,105</u>	<u>3,344,644</u>
Equity attributable to equity holders of the parent		
Share capital	140,573	140,573
Reserves	1,189,338	1,135,346
Treasury shares - at cost	(63,306)	(63,302)
	<u>1,266,605</u>	<u>1,212,617</u>
Minority interests	640,945	635,445
TOTAL EQUITY	<u>1,907,550</u>	<u>1,848,062</u>
Non-current liabilities		
Borrowings (unsecured)	368,125	330,166
Deferred tax liabilities	67,208	61,783
Retirement benefits	12,162	11,712
	<u>447,495</u>	<u>403,661</u>
Current liabilities		
Trade and other payables	420,975	431,524
Borrowings (unsecured)	435,522	394,400
Redeemable Bonds	-	250,000
Taxation	21,563	16,997
	<u>878,060</u>	<u>1,092,921</u>
TOTAL LIABILITIES	<u>1,325,555</u>	<u>1,496,582</u>
TOTAL EQUITY AND LIABILITIES	<u>3,233,105</u>	<u>3,344,644</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	4.84	4.63

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2008.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2008

The figures have not been audited

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2008

	Share capital RM'000	Share premium RM'000	Attributable to equity holders of the parent					Treasury shares RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
			Other reserves RM'000	Reserve for own shares RM'000	Share option reserve RM'000	Retained profits RM'000	Total RM'000				
Current year-to date ended											
31 December 2008											
At 1 July 2008	140,573	586,926	(45,329)	(52,255)	1,788	644,216	(63,302)	1,212,617	635,445	1,848,062	
Net profit for the period	-	-	-	-	-	63,231	-	63,231	20,557	83,788	
Dividend paid	-	-	-	-	-	(13,079)	-	(13,079)	(18,954)	(32,033)	
Foreign currency translation differences	-	-	5,285	-	-	-	-	5,285	3,666	8,951	
Purchase of Trust Shares	-	-	-	(2,119)	-	-	-	(2,119)	-	(2,119)	
Purchase of treasury shares	-	-	-	-	-	-	(4)	(4)	-	(4)	
Transfer to capital redemption reserves	-	-	4	-	-	(4)	-	-	-	-	
Transfer to capital reserves	-	-	295	-	-	(295)	-	-	-	-	
Share-based payments	-	-	371	-	303	-	-	674	231	905	
At 31 December 2008	140,573	586,926	(39,374)	(54,374)	2,091	694,069	(63,306)	1,266,605	640,945	1,907,550	

197

**HONG LEONG INDUSTRIES BERHAD (5486-P)
 QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2008**

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2008 (Cont'd)

	Share capital RM'000	Attributable to equity holders of the parent						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		Total RM'000	Minority interests RM'000
Preceding year corresponding period 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
At 1 July 2007	-	-	-	-	-	90,779	-	90,779	70,195	160,974
Net profit for the period	-	-	-	-	-	(9,720)	-	(9,720)	(30,892)	(40,612)
Dividend paid	-	-	-	-	-	-	-	-	(2,689)	(2,689)
Purchase of additional shares in a subsidiary company	-	-	-	-	-	-	-	-	-	-
Foreign currency translation differences	-	-	(4,261)	-	-	-	-	(4,261)	1,107	(3,154)
Purchase of treasury shares	-	-	-	-	-	-	(4)	(4)	-	(4)
Share-based payments	-	-	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

Dividends received by the ESOS Trust amounted to RM 557,000 (2008: RM 370,000) are eliminated against the dividend expense of the Company following the consolidation of ESOS Trust.

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 2008.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2008

The figures have not been audited

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2008

	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2008 RM'000	31/12/2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	104,617	184,825
Adjustments for:-		
Share of profit of associated companies	(10,520)	(19,506)
Depreciation and amortisation	135,866	127,824
Non cash items	(2,789)	2,532
Net financing costs	16,076	22,827
Operating profit before changes in working capital	243,250	318,502
Changes in working capital		
Net change in current assets	42,235	(67,848)
Net change in current liabilities	(10,547)	58,442
Net income taxes paid	(13,849)	(13,608)
Other operating income received	116	515
Net financing costs paid	(16,076)	(22,827)
Net cash generated from operating activities	245,129	273,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Equity investments	12,560	(6,784)
Other investments	(98,127)	(213,875)
Net cash used in investing activities	(85,567)	(220,659)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to equity holders of the Company	(13,079)	(9,720)
Dividend paid to minority shareholders of subsidiaries	(18,954)	(30,892)
Net repayments of borrowings	(173,840)	(123,307)
Purchase of treasury shares	(4)	(14)
Purchase of Trust Shares	(2,119)	-
Net cash used in financing activities	(207,996)	(163,933)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(48,434)	(111,416)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	267,975	295,767
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,147	(523)
CASH & CASH EQUIVALENTS AT END OF PERIOD	220,688	183,828

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

	31/12/2008 RM'000	31/12/2007 RM'000
Deposits, cash and bank balances	221,503	189,329
Bank overdraft	(815)	(5,501)
	220,688	183,828

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2008.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2008

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 2008.

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 2008.

The Malaysian Accounting Standard Board has issued the following FRSs and IC Interpretations which have not been applied in preparing this interim financial report.

FRS / Interpretation		Effective date
FRS 4	Insurance Contracts	1 January 2010
FRS 7	Financial Instruments: Disclosure	1 January 2010
FRS 8	Operating Segments	1 July 2009
FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10	Interim Financial Reporting and Impairment	1 January 2010

The Group plans to first adopt FRS 8 for the financial year ending 30 June 2010, and to adopt FRS 7, FRS 139, IC interpretation 9 and IC Interpretation 10 for the financial year ending 30 June 2011.

The first adoption of the FRS 7, FRS 8, IC Interpretation 9 and IC Interpretation 10 are not expected to have any material financial impact to the Group.

The effects resulting from the adoption of FRS 139 upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors are not disclosed by virtue of the exemption given in the standard.

FRS 4 is not applicable to the Group and hence, no further disclosure is required.

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 have been no material seasonal or cyclical factors affecting the results of the quarter under review.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2008

The figures have not been audited

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 RM3,380. The total number of shares bought back as at 31 December 2008 was 8,429,500 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.

In the financial year 2007, the Group has granted conditional incentive share options ("Options") over 2,000,000 ordinary shares of RM0.50 each in the Company, at an exercise price of RM5.51 per share to eligible executives of the Group ("Option Holders") pursuant to the Executive Share Options Scheme ("ESOS") of the Company which was established on 23 January 2006, subject to the achievement of certain performance criteria by the Option Holders over the option performance period.

At the end of the option performance period, the Option Holders fulfilled the performance criteria and accordingly, on 15 August 2008, the Group vested the Options over 2,000,000 ordinary shares in the Company to the Option Holders. The vested Options will be satisfied by existing HLI shares held by the ESOS Trust set up for the Options.

Subsequent to the current quarter under review, 800,000 HLI Options ie 40% of the vested HLI Options over 2,000,000 ordinary shares in HLI, lapsed on 14 February 2009.

(c) There were no additional shares purchased by the ESOS Trust during the quarter under review. During the financial year-to-date, 528,900 shares were purchased by the ESOS Trust ("Trust Shares"). The total number of shares purchased by the ESOS Trust as at 31 December 2008 was 11,139,800 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 a first interim dividend of 5.0 sen per share tax exempt amounting to RM13.6 million on 18 December 2008.

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2008

The figures have not been audited

8. **Segmental reporting**

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

	Semi- conductor RM'000	Motorcycles RM'000	Building materials RM'000	Others RM'000	Total RM'000
Revenue					
External sales	687,614	474,381	346,129	907	1,509,031
Results					
Segment results	21,733	62,312	28,350	(2,057)	110,338
Unallocated corporate expense					(165)
Operating profit					110,173
Interest income					4,219
Finance costs					(20,295)
Share of profit of associated companies					10,520
Profit before taxation					104,617
Taxation					(20,829)
Profit for the period					83,788

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 have been placed under members' voluntary liquidation:-

- (a) Hong Leong Maruken Sdn Bhd, a 70% subsidiary;
- (b) Varinet Sdn Bhd, a 60% subsidiary;
- (c) Guolene Paper Products Sdn Bhd, a wholly-owned subsidiary of the Company;
- (d) Guotrade (Malaysia) Sdn Bhd, a wholly-owned subsidiary of the Company;
- (e) MZ Engineering GmbH, an indirect wholly-owned subsidiary of the Company

The liquidations are currently pending completion of legal execution proceedings against debtors and 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 2008

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 RM683.3 million and RM16.6 million respectively as compared with a revenue and PBT of RM781.9 million and RM106.1 million respectively recorded in the preceding year's corresponding quarter.

For the financial year-to-date, the Group recorded a PBT of RM104.6 million as compared with a PBT of RM184.8 million recorded in the preceding year's corresponding period.

The lower PBT as compared with the preceding year's corresponding quarter/period was mainly attributable to significant drop in PBT of the semiconductor business due to severe contraction in consumers demand; lower profit of the motorcycles business due to lower sales volume; and decline in profit contribution from the associated companies.

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

The Group recorded a PBT of RM16.6 million for the quarter under review as compared with a PBT of RM88.1 million for the preceding quarter.

The lower PBT as compared with the preceding quarter was mainly attributable to significant drop in profit of the semiconductor business and a general decline in the other businesses.

15. Prospects

In view of the current global economic crisis, the Group's performance for the financial year ending 30 June 2009 could be affected. The Group will continue to review its cost structure to mitigate the adverse impact.

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 2008

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
	31/12/2008 RM'000	31/12/2007 RM'000	31/12/2008 RM'000	31/12/2007 RM'000
Current tax				
Malaysian				
- current	4,529	6,300	15,267	15,563
- prior years	(241)	36	28	(196)
Overseas				
- current	522	-	522	-
- prior years	(412)	-	(412)	-
	<u>4,398</u>	<u>6,336</u>	<u>15,405</u>	<u>15,367</u>
Deferred tax				
Malaysian				
- current	2,148	4,258	5,424	9,784
- prior years	-	-	-	(1,300)
	<u>2,148</u>	<u>4,258</u>	<u>5,424</u>	<u>8,484</u>
	<u>6,546</u>	<u>10,594</u>	<u>20,829</u>	<u>23,851</u>

The Group's effective tax rate for the quarter under review is higher than the statutory tax rate due mainly to non-availability of group tax relief for losses incurred by certain subsidiaries.

The Group's effective tax rate for the financial year-to-date 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 2008:-

	RM'000
Short term investment	
At cost	27
At book value	7
At market value	4

HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2008

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 2008 are as follows:-

	RM'000
(i) Unsecured short term borrowings	435,522
(ii) Unsecured long term borrowings	368,125
	<u>803,647</u>

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

USD borrowings	<u>76,176</u>
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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 18 February 2009 are as follows:-

	Contract amount RM'000
Foreign exchange forward contracts	<u>377,587</u>

The above contracts are maturing within a period of 12 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 2008

The figures have not been audited

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 2008 of the financial year ending 30 June 2009 (2007/2008: Nil).
- (b) For the financial year-to-date, a total gross dividend of 5.0 sen per share tax exempt has been declared (2007/2008: 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 RM15,964,000 (2007/2008: net profit of RM53,125,000) and the weighted average number of ordinary shares during the quarter of 261,577,000 (2007/2008: 262,719,000).

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 RM63,231,000 (2007/2008: of RM90,779,000) and the weighted average number of ordinary shares during the period of 261,627,000 (2007/2008: 262,719,000).

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
	31/12/2008 '000	31/12/2007 '000	31/12/2008 '000	31/12/2007 '000
Issued ordinary shares at beginning of period	281,145	281,145	281,145	281,145
Treasury shares held at beginning of period	(8,428)	(8,426)	(8,428)	(8,426)
Trust Shares held at beginning of period	(11,140)	(10,000)	(10,611)	(10,000)
	261,577	262,719	262,106	262,719
Effect of purchase of treasury shares	-	-	-	-
Effect of purchase of Trust Shares	-	-	(479)	-
Weighted average number of ordinary shares (basic)	261,577	262,719	261,627	262,719

**HONG LEONG INDUSTRIES BERHAD (5486-P)
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER
ENDED 31 DECEMBER 2008**

The figures have not been audited

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 / 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.

By Order of the Board
Hong Leong Industries Berhad

Joanne Leong Wei Yin
Company Secretary

Kuala Lumpur
24 February 2009