



Hong Leong Industries

A Member of the Hong Leong Group Malaysia

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 31 DECEMBER 2009

The figures have not been audited

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE QUARTER ENDED 31 DECEMBER 2009

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter	Preceding Year Corresponding Quarter	Current Year-To-Date	Preceding Year Corresponding Period
	31/12/2009 RM'000	31/12/2008 RM'000	31/12/2009 RM'000	31/12/2008 RM'000
Revenue	717,204	683,255	1,389,161	1,509,031
Cost of sales	(599,973)	(599,646)	(1,168,656)	(1,283,488)
Gross profit	117,231	83,609	220,505	225,543
Operating expenses	(42,235)	(41,397)	(82,559)	(85,135)
Other operating income/(expenses)	231	(23,827)	875	(30,235)
Operating profit	75,227	18,385	138,821	110,173
Interest income	744	2,156	1,435	4,219
Finance costs	(5,646)	(9,622)	(11,717)	(20,295)
Share of profit of associated companies	13,306	5,642	22,703	10,520
Profit before taxation	83,631	16,561	151,242	104,617
Taxation	(10,076)	(6,546)	(21,025)	(20,829)
Profit for the period	73,555	10,015	130,217	83,788
Attributable to:				
Equity holders of the parent	50,449	15,964	90,971	63,231
Minority interests	23,106	(5,949)	39,246	20,557
Profit for the period	73,555	10,015	130,217	83,788
Earnings per ordinary share (sen) :-				
(a) Basic	19.29	6.10	34.78	24.17
(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 2009.

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CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2009

	As At End of Current Quarter	As At End of Preceding Financial Year
	31/12/2009 RM'000	30/06/2009 RM'000
Non-current assets		
Property, plant and equipment	1,313,893	1,300,242
Prepaid lease payments	36,649	36,977
Investments in associated companies	393,588	387,084
Other investments	60	56
Intangible assets	482,364	482,732
Deferred tax assets	877	877
	<u>2,227,431</u>	<u>2,207,968</u>
Current assets		
Inventories	187,216	177,236
Trade and other receivables	489,461	425,983
Tax recoverable	11,227	17,148
Short term investments	-	4
Deposits, cash and bank balances	357,184	261,008
	<u>1,045,088</u>	<u>881,379</u>
TOTAL ASSETS	<u>3,272,519</u>	<u>3,089,347</u>
Equity attributable to equity holders of the parent		
Share capital	140,573	140,573
Reserves	1,249,029	1,191,539
Treasury shares - at cost	(63,314)	(63,309)
	<u>1,326,288</u>	<u>1,268,803</u>
Minority interests	605,487	590,410
TOTAL EQUITY	<u>1,931,775</u>	<u>1,859,213</u>
Non-current liabilities		
Borrowings (unsecured)	369,638	377,117
Deferred tax liabilities	68,763	65,198
Retirement benefits	12,826	12,369
	<u>451,227</u>	<u>454,684</u>
Current liabilities		
Trade and other payables	438,359	350,775
Borrowings (unsecured)	431,323	413,207
Taxation	19,835	11,468
	<u>889,517</u>	<u>775,450</u>
TOTAL LIABILITIES	<u>1,340,744</u>	<u>1,230,134</u>
TOTAL EQUITY AND LIABILITIES	<u>3,272,519</u>	<u>3,089,347</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)	5.07	4.85

The Condensed Consolidated Balance Sheets should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2009.

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2009

	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 2009											
At 1 July 2009	140,573	586,926	(28,479)	(54,374)	1,068	686,398	(63,309)	1,268,803	590,410	1,859,213	
Profit for the period	-	-	-	-	-	90,971	-	90,971	39,246	130,217	
Dividend paid	-	-	-	-	-	(18,310)	-	(18,310)	(22,020)	(40,330)	
Foreign currency translation differences	-	-	(14,903)	-	-	-	-	(14,903)	(2,066)	(16,969)	
Purchase of treasury shares	-	-	-	-	-	-	(5)	(5)	-	(5)	
Transfer to capital redemption reserves	-	-	61	-	-	(61)	-	-	-	-	
Share-based payments	-	-	(330)	-	62	-	-	(268)	(83)	(351)	
At 31 December 2009	140,573	586,926	(43,651)	(54,374)	1,130	758,998	(63,314)	1,326,288	605,487	1,931,775	

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2009 (Cont'd)

	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				
Preceding year corresponding period ended 31 December 2008	140,573	586,926	(45,329)	(52,255)	1,788	644,216	(63,302)	1,212,617	635,445	1,848,062	
At 1 July 2008	-	-	-	-	-	63,231	-	63,231	20,557	83,788	
Profit for the period	-	-	-	-	-	(13,079)	-	(13,079)	(18,954)	(32,033)	
Dividend paid	-	-	-	-	-	-	-	-	3,666	8,951	
Foreign currency translation differences	-	-	5,285	-	-	-	-	5,285	-	-	
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	

Dividends received by the Executive Share Option Scheme ("ESOS") Trust amounted to RM 780,000 (2008/2009: RM 557,000) 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 2009.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2009

	Current Year- To-Date	Preceding Year Corresponding Period
	31/12/2009 RM'000	31/12/2008 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	151,242	104,617
Adjustments for:-		
Share of profit of associated companies	(22,703)	(10,520)
Depreciation and amortisation	119,941	135,866
Non cash items	9,488	(2,789)
Net financing costs	10,282	16,076
Operating profit before changes in working capital	268,250	243,250
Changes in working capital		
Net change in current assets	(91,491)	42,235
Net change in current liabilities	93,712	(10,547)
Net income taxes paid	(3,173)	(13,849)
Net financing costs paid	(10,282)	(16,076)
Other operating income received	5,377	116
Net cash generated from operating activities	262,393	245,129
CASH FLOWS FROM INVESTING ACTIVITIES		
Equity investments	-	12,560
Purchase of property, plant & equipment	(138,375)	(98,127)
Net cash used in investing activities	(138,375)	(85,567)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to equity holders of the Company	(18,310)	(13,079)
Dividend paid to minority shareholders of subsidiaries	(22,020)	(18,954)
Net drawdown/(repayments) of borrowings	13,301	(173,840)
Purchase of treasury shares	(10)	(4)
Purchase of Trust Shares	-	(2,119)
Net cash used in financing activities	(27,039)	(207,996)
NET CHANGE IN CASH AND CASH EQUIVALENTS	96,979	(48,434)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	261,008	267,975
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(815)	1,147
CASH & CASH EQUIVALENTS AT END OF PERIOD	357,172	220,688
Cash and cash equivalents included in the consolidated cash flow statements comprise the following balance sheet amounts:		
	31/12/2009 RM'000	31/12/2008 RM'000
Deposits, cash and bank balances	357,184	221,503
Bank overdraft	(12)	(815)
	357,172	220,688

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Financial Statements for the Financial Year Ended 30 June 2009.

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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 2009.

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 2009.

On 1 July 2009, the Group has adopted FRS 8 Operating Segments. The adoption of FRS 8 does not have any financial impact on the financial statements of the Group.

The Group has not applied all the Amendments to FRSs, FRSs and IC Interpretations that have been issued by the Malaysian Accounting Standard Board (“MASB”) but are not yet effective.

FRS 4, FRS120, FRS129, FRS131, FRS140, IC Interpretation 12,13,14,15,16 and 17 are not applicable to the Group and hence, no further disclosure is required.

The Group plans to adopt the other Amendments to FRSs, FRSs and IC Interpretations for the financial year ending 30 June 2011.

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 FRSs.

The first adoption of the other Amendments to FRSs, FRSs 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 have been no material seasonal or cyclical factors 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.

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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 RM4,400. The total number of shares bought back as at 31 December 2009 was 8,431,500 shares and the shares are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.
- (b) As at 31 December 2009, the balance of the conditional incentive share options vested to the eligible executives of the Group was 1,200,000.

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 trust set up for the ESOS ("ESOS Trust") during the quarter under review. The total number of shares purchased by the ESOS Trust ("Trust Shares") as at 31 December 2009 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 7.0 sen per share tax exempt amounting to RM19.1 million on 21 December 2009.

8. Operating Segments

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

	Semi- conductor RM'000	Motorcycles RM'000	Building materials RM'000	Others RM'000	Total RM'000
Revenue					
External sales	658,889	398,912	330,176	1,184	1,389,161
Results					
Segment results	56,903	62,362	23,276	(3,588)	138,953
Unallocated corporate income					(132)
Operating profit					138,821
Interest income					1,435
Finance costs					(11,717)
Share of profit of associated companies					22,703
Profit before taxation					151,242
Taxation					(21,025)
Profit for the period					130,217

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.

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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:-

- i) Kilatas Sdn Bhd (“Kilatas”), a wholly-owned subsidiary of Taman Terang Sdn Bhd, which in turn is a wholly-owned subsidiary of the Company, has been placed under member’s voluntary liquidation pursuant to Section 254(1)(b) of the Companies Act, 1965. Messrs Ling Kam Hoong & Co has been appointed as liquidator of Kilatas.
- ii) 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) Guotrade (Malaysia) Sdn Bhd, a wholly-owned subsidiary;
 - (d) MZ Engineering GmbH, 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 RM717.2 million and RM83.6 million respectively as compared with a revenue and PBT of RM683.2 million and RM16.6 million respectively recorded in the corresponding quarter of the preceding year (“FY2009”). The higher PBT was mainly attributable to the improvement in profits of the semiconductor business in line with the higher sales achieved.

For the financial year-to-date, the Group recorded a revenue and PBT of RM1,389.2 million and RM151.2 million respectively as compared with a revenue and PBT of RM1,509.0 million and RM104.6 million respectively recorded in the corresponding period of FY2009. The increase in PBT was mainly attributable to the improvement in profits of the semiconductor business.

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

The Group recorded a PBT of RM83.6 million for the quarter under review as compared with a PBT of RM67.6 million for the preceding quarter. The higher PBT was mainly attributable to the improvement in profits of the semiconductor and motorcycles businesses in line with the higher sales achieved. The improved PBT was also contributed by the higher contribution from the associated companies.

15. Prospects

Barring any unforeseen circumstances, the Board expects the Group’s performance to be satisfactory for the financial year ending 30 June 2010.

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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
	31/12/2009 RM'000	31/12/2008 RM'000	31/12/2009 RM'000	31/12/2008 RM'000
Current tax				
Malaysian				
- current	7,778	4,529	17,356	15,267
- prior years	40	(241)	40	28
Overseas				
- current	8	522	65	522
- prior years	-	(412)	-	(412)
	7,826	4,398	17,461	15,405
Deferred tax				
Malaysia - current	2,250	2,148	3,564	5,424
	2,250	2,148	3,564	5,424
	10,076	6,546	21,025	20,829

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 2009:-

	RM'000
Other investment	
At cost	27
At book value	4
At market value	8

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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 2009 are as follows:-

	RM'000
(i) Unsecured short term borrowings	431,323
(ii) Unsecured long term borrowings	369,638
	<u>800,961</u>

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

USD borrowings	<u>100,624</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 20 January 2010 are as follows:-

	Contract amount
	RM'000
Foreign exchange forward contracts	<u>48,244</u>

The above contracts are maturing within a period of 3 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.

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 2009 of the financial year ending 30 June 2010 (2nd quarter 2008/2009: Nil).

(b) For the financial year-to-date, a total gross dividend of 7.0 sen per share tax exempt has been declared (2007/2008: 5.0 sen per share less tax).

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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 RM50,449,000 (2008/2009: RM15,964,000) and the weighted average number of ordinary shares during the quarter of 261,575,000 (2008/2009: 261,578,000).

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 RM90,971,000 (2007/2008: of RM63,231,000) and the weighted average number of ordinary shares during the period of 261,575,000 (2007/2008: 261,627,000).

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
	31/12/2009 '000	31/12/2008 '000	31/12/2009 '000	31/12/2008 '000
Issued ordinary shares at beginning of period	281,145	281,145	281,145	281,145
Treasury shares held at beginning of period	(8,430)	(8,428)	(8,430)	(8,428)
Trust Shares held at beginning of period	(11,139)	(11,139)	(11,139)	(10,611)
	261,576	261,578	261,576	262,106
Effect of purchase of Trust Shares	-	-	-	(479)
Effect of purchase of treasury shares	(1)	-	(1)	-
Weighted average number of ordinary shares (basic)	261,575	261,578	261,575	261,627

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
 26 January 2010