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Hong Leong Industries Berhad Laporan Tahunan 2004 Annual Report

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COMPANY PROFILE

Company profile

Hong Leong Industries Berhad (“HLI”) is principally an investment holding company. Activities of HLI’s subsidiaries include manufacturing, testing and sale of integrated circuits, semiconductor devices, electronic components and leadframes, manufacture and assembly of motorcycles, electric scooters and related parts and products, distribution of motorcycles and motorcycle components, manufacture and sale of ceramic tiles, manufacture and sale of polypropylene and polyethylene products, duplex board boxes and flexible packaging products.

Associated companies are involved in the production of motorcycles, motorcycle engines and spare parts and holding of strategic investment.

HLI is a public listed company and its shares are traded on the Main Board of Bursa Malaysia Securities Berhad.

CORPORATE INFORMATION

information

DIRECTORS

YBhg Tan Sri Quek Leng Chan
(Executive Chairman)

Mr Kwek Leng San
(President & Chief Executive Officer)

YAM Tunku Dara Tunku Tan Sri
Naquiah bt Tuanku Ja'afar

YBhg Dato' Ahmad Johari bin
Tun Abdul Razak

Mr Chuah Chuan Thye

Mr David Edward Comley

SECRETARY

Ms Joanne Leong Wei Yin

AUDITORS

Ling Kam Hoong & Co
No. 6-1, Jalan 3/64A
Udarama Complex
Off Jalan Ipoh
50350 Kuala Lumpur
Tel : 03-4042 3288
Fax: 03-4042 0149

REGISTRAR

Hong Leong Share Registration Services Sdn Bhd
(Formerly known as Hong Leong Nominees Sendirian
Berhad)

Level 5, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel : 03-2164 1818
Fax: 03-2164 3703

REGISTERED OFFICE

Level 9, Wisma Hong Leong
18 Jalan Perak
50450 Kuala Lumpur
Tel : 03-2164 2631
Fax: 03-2164 2514

COUNTRY OF INCORPORATION / DOMICILE

A public limited liability company
incorporated and domiciled in Malaysia

DIRECTORS' PROFILE

profile

YBhg Tan Sri Quek Leng Chan

Executive Chairman/Non-Independent

Tan Sri Quek Leng Chan, aged 61, a Malaysian, qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate.

Tan Sri Quek was appointed to the Board of Hong Leong Industries Berhad ("HLI") on 12 May 1969. He is the Chairman of the Executive Share Option Scheme ("ESOS") Committee of HLI.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad ("HLCo(M)"), Executive Chairman of Hong Leong Credit Berhad, Hong Leong Properties Berhad, Hume Industries (Malaysia) Berhad ("HIMB"), Narra Industries Berhad (formerly known as Hume Cemboard Berhad) ("Narra"), O.Y.L. Industries Bhd ("OYL") and Camerlin Group Berhad ("CGB") and Chairman of Hong Leong Bank Berhad, HLG Capital Berhad, Hong Leong Finance Berhad ("HLF") and Hong Leong Assurance Berhad.

Tan Sri Quek has attended all the Board meetings of HLI held during the financial year ended 30 June 2004.

He has no conflict of interest with HLI and has no conviction for offences within the past ten years.

Mr Kwek Leng San

President & Chief Executive Officer/Non-Independent

Mr Kwek Leng San, aged 49, a Singaporean, graduated from University of London with a Bachelor of Science (Engineering) degree. He also holds a Master of Science (Finance) degree from City University, London. He was appointed as a Director of Malaysian Pacific Industries Berhad ("MPI") on 20 July 1990 and subsequently as the Group Managing Director of MPI from September 1990 to August 1993. Presently, he is the Executive Chairman of MPI and Guolene Packaging Industries Berhad, President & Chief Executive Officer of HLI and HIMB, Group Managing Director of CGB and Managing Director of Narra. He is also the Chairman of Southern Steel Berhad and a Director of OYL and HLCo(M).

Mr Kwek was appointed to the Board of HLI on 1 September 1990 before assuming his present position as the President & Chief Executive Officer on 16 August 1993. He is a member of the ESOS Committee and Board Audit & Risk Management Committee of HLI.

He has attended all the Board meetings of HLI held during the financial year ended 30 June 2004.

Mr Kwek, Tan Sri Quek Leng Chan and Mr Quek Leng Chye, a deemed major shareholder of HLI, are brothers. Mr Kwek has no conflict of interest with HLI and has no conviction for offences within the past ten years.

DIRECTORS' PROFILE

profile (cont'd)

YAM Tunku Dara Tunku Tan Sri Naquiah bt Tuanku Ja'afar

Non-Executive Director/Independent

YAM Tunku Dara Tunku Tan Sri Naquiah bt Tuanku Ja'afar, aged 59, a Malaysian, graduated from University of Cairo with a Bachelor of Economics/Political Science degree. She also holds a Diploma in Public Relations from the Malaysian Institute of Public Relations. YAM Tunku Dara is a founder and governor of Kolej Tuanku Ja'afar and is a shareholder and Director of Syarikat Pesaka Antah.

YAM Tunku Dara was appointed to the Board of HLI on 19 June 1971. She is a member of the Board Audit & Risk Management Committee of HLI.

She has attended all the Board meetings of HLI held during the financial year ended 30 June 2004.

YAM Tunku Dara has no family relationship with other Directors or major shareholders of HLI, has no conflict of interest with HLI and has no conviction for offences within the past ten years.

YBhg Dato' Ahmad Johari bin Tun Abdul Razak

Non-Executive Director/Independent

Dato' Ahmad Johari bin Tun Abdul Razak, aged 50, a Malaysian, graduated from University of Kent, United Kingdom with a Bachelor of Arts degree in law and qualified as a Barrister-at-Law from Lincoln's Inn.

Dato' Ahmad Johari was appointed to the Board of HLI on 2 January 1981. He is the Chairman of the Board Audit & Risk Management Committee of HLI.

He is currently the Executive Chairman of Ancom Berhad and Chairman of Courts Mammoth Berhad and Daiman Development Berhad and also the Executive Vice Chairman of Nylex (Malaysia) Berhad.

He has attended three (3) out of the four (4) Board meetings of HLI held during the financial year ended 30 June 2004.

Dato' Ahmad Johari has no family relationship with other Directors or major shareholders of HLI, has no conflict of interest with HLI and has no conviction for offences within the past ten years.

DIRECTORS' PROFILE

profile (cont'd)

Mr Chuah Chuan Thye

Non-Executive Director/Non-Independent

Mr Chuah Chuan Thye, aged 48, a Malaysian, graduated from University of Massey, New Zealand with a Bachelor of Business Studies degree. He has more than 20 years experience in the business and finance sectors. Mr Chuah commenced employment as a manager in Hong Bee Hardware Company, Sdn Berhad ("Hong Bee") in 1979 and subsequently appointed as a Director of Hong Bee in 1984. Presently, he is the Managing Director of Hong Bee Group of Companies.

Mr Chuah was appointed to the Board of HLI on 1 December 1993. He does not sit on any committee of HLI. He is also a Director of HLF.

He has attended all the Board meetings of HLI held during the financial year ended 30 June 2004.

Mr Chuah has no family relationship with other Directors or major shareholders of HLI, has no conflict of interest with HLI and has no conviction for offences within the past ten years.

Mr David Edward Comley

Non-Executive Director/Non-Independent

Mr David Edward Comley, aged 55, a British, graduated from Lanchester Polytechnic with a Bachelor of Science (Electrical Engineering) degree. He started his career with Plessey Semiconductors for 17 years with the last position held as the Worldwide Assembly Manager, responsible for the management of Plessey's UK Assembly Facility and the Offshore Subcontractors in Malaysia, Hong Kong, Philippines and Taiwan. Prior to his appointment as the Group Managing Director of MPI, he was with ITEQ Europe and AMKOR ANAM Europe Ltd ("AMKOR"). In AMKOR, he was a Director of Operations before he was promoted to the position as Managing Director.

He was appointed to the Board of HLI on 1 May 1994. He does not sit on any committee of HLI.

Mr David Comley has attended all the Board meetings of HLI held during the financial year ended 30 June 2004.

Mr David Comley has no family relationship with other Directors or major shareholders of HLI, has no conflict of interest with HLI and has no conviction for offences within the past ten years.

& risk management committee report

CONSTITUTION

The Board Audit & Risk Management Committee ("the Committee") of Hong Leong Industries Berhad ("HLI" or "the Company") has been established since 21 March 1994.

COMPOSITION

YBhg Dato' Ahmad Johari bin Tun Abdul Razak
Chairman, Independent Non-Executive Director

YAM Tunku Dara Tunku Tan Sri Naquiah bt Tuanku Ja'afar
Independent Non-Executive Director

Mr Kwek Leng San
Non-Independent Executive Director

SECRETARY

The Secretary to the Committee is Ms Joanne Leong Wei Yin, who is the Company Secretary of HLI.

TERMS OF REFERENCE

- To nominate and recommend for the approval of the Board of Directors ("Board"), a person or persons as external auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit scope and plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To review the assistance given by the Group's officers to the external auditors.
- To review the quarterly reports and annual financial statements of the Company and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions and resources of the internal audit functions.
- To review the report and findings of the internal audit department including any findings of internal investigations and the management's response thereto.
- To review the adequacy and integrity of internal control systems, including risk management and management information system.
- To review the risk management framework adopted by the Group and the processes employed to identify, evaluate and manage key business risks.
- To review any related party transactions that may arise within the Company or the Group.
- Other functions as may be agreed to by the Committee and the Board.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

BOARD AUDIT

& risk management committee report (cont'd)

AUTHORITY

The Committee is authorised by the Board to review any activity of HLI and its subsidiaries ("the Group") within its Terms of Reference. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

MEETINGS

The Committee meets at least four (4) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The head of finance, head of internal audit and external auditors are invited to attend Committee meetings. At least once a year, the Committee will have a separate session with the external auditors without the presence of executive directors.

Two (2) independent and non-executive members of the Committee shall constitute a quorum.

After each Committee meeting, the Committee shall report and update the Board on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board.

ACTIVITIES

The Committee carried out its duties in accordance with its Terms of Reference.

During the financial year ended 30 June 2004, four (4) Committee meetings were held and all the meetings were attended by all the Committee members.

The Committee reviewed the quarterly reports and annual financial statements of the Group. The Committee met with the external auditors and discussed the nature and scope of the audit, considered any significant changes in accounting and auditing issues, reviewed the management letter and management's response, reviewed pertinent issues which had significant impact on the results of the Group and discussed applicable accounting and auditing standards. The Committee reviewed the internal auditor's audit findings and recommendations.

In addition, the Committee reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Group.

The Committee also reviewed and approved various related party transactions carried out by the Group.

INTERNAL AUDIT

During the financial year ended 30 June 2004, the Internal Audit Department carried out its duties covering business audit, system and financial audit.

NOTICE OF ANNUAL GENERAL MEETING

annual general meeting

NOTICE IS HEREBY GIVEN that the Forty-first Annual General Meeting of Hong Leong Industries Berhad ("the Company") will be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Monday, 18 October 2004 at 11.00 a.m. in order:

1. to receive and consider the audited financial statements together with the reports of the Directors and Auditors thereon for the year ended 30 June 2004;
2. to approve the payment of Directors' fees of RM300,000/- to be divided amongst the Directors in such manner as the Directors may determine;
3. to re-elect YBhg Tan Sri Quek Leng Chan and Mr Kwek Leng San, the retiring Directors;
4. to re-appoint Messrs Ling Kam Hoong & Co as Auditors of the Company and authorise the Directors to fix their remuneration;
5. as a special business, to consider and, if thought fit, pass the following ordinary motion:

Authority To Directors To Issue Shares

"**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."; and

6. to consider any other business of which due notice shall have been given.

By Order of the Board

Joanne Leong Wei Yin
Secretary

Kuala Lumpur
25 September 2004

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. A member who is an authorised nominee may appoint not more than two proxies in respect of each securities account it holds.
2. The Form of Proxy must be deposited at the Registered Office of the Company at Level 9, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time and date of the meeting.
3. **Ordinary Resolution On Authority To Directors To Issue Shares**

The Ordinary Resolution, if passed, will give authority to the Directors of the Company to issue ordinary shares of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

STATEMENT ACCOMPANYING

STATEMENT ACCOMPANYING

notice of annual general meeting

(Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad)

1. Directors who are standing for re-election at the Forty-first Annual General Meeting of the Company

Pursuant to Article 115 of the Company's Articles of Association

- (a) YBhg Tan Sri Quek Leng Chan; and
- (b) Mr Kwek Leng San.

2. Details of attendance of Directors at Board Meetings

There were four (4) Board meetings held during the financial year ended 30 June 2004. Details of attendance of the Directors are set out in the Directors' Profile appearing on pages 4 to 6 of the Annual Report.

3. Place, date and time of Forty-first Annual General Meeting

The Forty-first Annual General Meeting of the Company will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Monday, 18 October 2004 at 11.00 a.m.

4. Further details of individuals who are standing for election as Directors

No individual is seeking election as a Director at the Forty-first Annual General Meeting of the Company.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

CORPORATE GOVERNANCE

and internal control

"Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."

~ Finance Committee on Corporate Governance

The Board of Directors has reviewed the manner in which the Malaysian Code on Corporate Governance ("the Code") is applied in the Group as set out below. The Board is pleased to report compliance of the Group with the Best Practices set out in Part 2 of the Code except where otherwise stated.

A. DIRECTORS

I The Board

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference to assist in the discharge of this responsibility.

II Board Balance

The Board of Directors comprises six (6) directors, four (4) of whom are non-executive. Of the non-executive directors, two (2) are independent. The profiles of the members of the Board are provided in the Annual Report.

The Board is of the view that the current Board composition fairly reflects the investment of shareholders in the Company.

The Board met four (4) times during the financial year ended 30 June 2004.

The Board has identified the Company Secretary of the Company to whom concerns may be conveyed, who would bring the same to the attention of the Board.

III Supply of Information

All Board members are supplied with information on a timely manner. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Company and of the Group and management's proposals which require the approval of the Board.

All directors have access to the advice and services of the Company Secretary as well as to independent professional advice, including the internal auditors.

IV Appointments to the Board

The Company does not have a Nominating Committee as all new nominations received are assessed and approved by the entire Board in line with its policy of ensuring nominees are persons of sufficient calibre and experience.

The process of assessing the directors is an on-going responsibility of the entire Board.

The Company does not have a formal training programme for new directors. However, to assist the directors in discharging their duties, the Company has developed Directors' Manual where each new director will be given a copy at the point of his appointment. The Directors' Manual highlights, amongst others, the major duties and responsibilities of a director vis-à-vis various laws, regulations and guidelines governing the same.

A. DIRECTORS (cont'd)

IV Appointments to the Board (cont'd)

The new director will be given briefing on the business of the Group and regulatory issues. Directors of the Company will also be updated from time to time of any new or changes to companies and securities legislations, rules and regulations.

V Re-election

All directors are required to submit themselves for re-election every three years.

B. DIRECTORS' REMUNERATION

I Level and make-up of Remuneration

The Company does not have a Remuneration Committee.

The Group's remuneration scheme for executive directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmark to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

For non-executive directors, the level of remuneration reflects the level of responsibilities undertaken by them.

II Procedure

The remuneration packages of all executives of the Group including executive directors are laid out in the Group's Human Resources Manual, which is reviewed from time to time to align with market/industry practices.

The fees of directors, including non-executive directors, are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting.

III Disclosure

The aggregate remuneration of directors (including directors who have resigned during the financial year and remuneration earned as executive directors of subsidiaries) for the financial year ended 30 June 2004 is as follows:

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	330,000	2,287,898	2,617,898
Non-Executive Directors	240,000	1,721,025	1,961,025

The number of directors whose remuneration falls into the following bands is as follows:

Range Of Remuneration (RM)	Executive	Non-Executive
50,000 and below	-	2
50,001 - 100,000	1	2
100,001 - 900,000	-	-
900,001 - 950,000	1	-
950,001 - 1,550,000	-	-
1,550,001 - 1,600,000	1	-
1,600,001 - 1,750,000	-	-
1,750,001 - 1,800,000	-	1

C. SHAREHOLDERS

I Dialogue between Companies and Investors

The Board acknowledges the importance of regular communication with shareholders and investors via the annual reports, circulars to shareholders and quarterly financial reports and the various announcements made during the year, through which shareholders and investors can have an overview of the Group's performance and operation.

II Annual General Meeting ("AGM")

The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions.

D. ACCOUNTABILITY AND AUDIT

The Board Audit & Risk Management Committee ("the Committee") was established on 21 March 1994. The financial reporting and internal control system of the Group is overseen by the Committee, which comprises a majority of non-executive directors. The primary responsibilities of the Committee are set out in the Board Audit & Risk Management Committee Report.

The Committee met four (4) times during the financial year ended 30 June 2004. Details of attendance of the Committee members are set out in the Board Audit & Risk Management Committee Report appearing on page 8 of the Annual Report.

The Committee is supported by the Internal Audit Department whose principal responsibility is to conduct periodic audits to ensure compliance with systems and/or standard operating procedures of the Group. Investigation will be made at the request of the Committee and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the Committee meetings where appropriate actions will be taken.

I Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Group. The Board receives the recommendation to adopt the financial statements from the Committee, which assesses the financial statements with the assistance of the external auditors.

II Internal Control

The Statement on Internal Control as detailed under paragraph E of this Statement provides an overview of the state of internal controls within the Group.

III Relationship with Auditors

The appointment of external auditors is recommended by the Committee, which determines the remuneration of the external auditors. The external auditors meet with the Committee to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

E. STATEMENT ON INTERNAL CONTROL

The Board of Directors, recognising its responsibilities in ensuring sound internal controls, has developed a risk management framework for the Group to assist it in:

- identifying the significant risks faced by the Group in the operating environment as well as evaluating the impact of such risks identified;
- developing the necessary measures to manage these risks; and
- monitoring and reviewing the effectiveness of such measures.

The Board has entrusted the Committee with the responsibility to oversee the implementation of the risk management framework of the Group.

The Board, in concurrence with the Committee, has appointed a Risk Manager ("RM") to administer the risk management framework. The RM is responsible to:

- periodically evaluate all identified risks for their continuing relevance in the operating environment and inclusion in the Risk Management Framework;
- assess adequacy of action plans and control systems developed to manage these risks;
- monitor the performance of management in executing the action plans and operating the control systems; and
- periodically report to the Committee on the state of internal controls and the management of risks throughout the Group.

The Committee, assisted by the Internal Audit Department, provides oversight on the implementation of the risk management framework of the Group.

These on going processes have been in place for the financial year under review, and reviewed periodically by the Committee.

The controls built into the risk management framework are intended to manage and not expected to eliminate all risks of failure to achieve business objectives but to provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

In associated companies, the Board nominates representatives to sit as directors and take a proactive stance in assessing the performance of the entity with the goal of safeguarding the investment of the Group. Where practical, the Group may request functional, financial and operating information as well as assurance that such information have been prepared in accordance with reporting standards and have been derived from control environments acceptable to the Group.

F. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The Listing Requirements of Bursa Malaysia Securities Berhad require the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the results and cash flow of the Group and of the Company for the financial year.

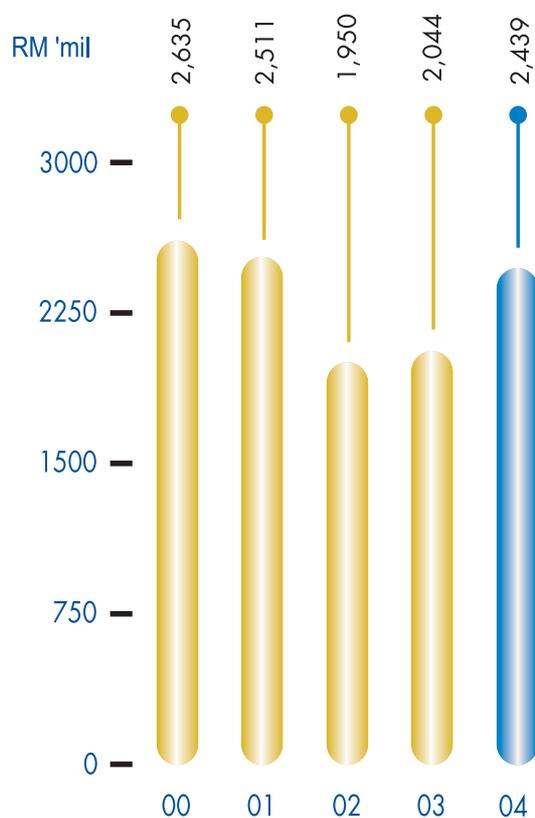
The directors are satisfied that in preparing the financial statements of the Group and of the Company for the financial year ended 30 June 2004, the Group has used the appropriate accounting policies and applied them consistently. The directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

GROUP FINANCIAL

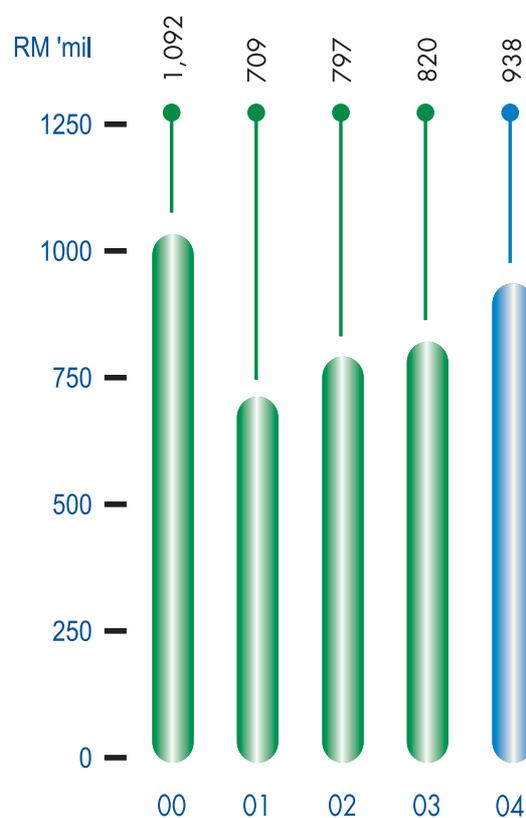
highlights

(RM 'mil)	2000	2001	2002	2003	2004
Revenue	2,635	2,511	1,950	2,044	2,439
Profit/(Loss) Before Taxation	513	127	(59)	51	199
Net Profit/(Loss)	196	(79)	(79)	9	108
Net Earnings/(Loss) Per Share (sen)	87	(36)	(36)	0	46
Net Dividend Per Share (sen)	19	21	15	2	5
Shareholders' Funds	1,092	709	797	820	938
Total Assets	4,590	4,197	4,034	3,813	3,888

Revenue



Shareholders' Funds



CHAIRMAN'S STATEMENT

statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of the Group and of the Company for the financial year ended 30 June 2004.

OPERATING ENVIRONMENT

The Malaysian economy expanded 5.2% in year 2003, up from the 4.1% achieved in the previous year, underpinned by stronger growth in the export-oriented industries and sustained domestic demand. The growth momentum continued in the first quarter of year 2004 with GDP rose to 7.6%, up from 6.6% in the immediate preceding quarter.

The stronger growth in the export sector for the financial year under review was supported by the recovery in the electronics exports arising from higher corporate spending on information, communication and technology products, rising global consumer demands on new generation electronics products as well as an improved US economy amid the historically low interest rate and a weak US dollar. This augured well for the Group's semiconductor business.

On the local front, improved consumer sentiments and confidence amid an improving economy boost domestic demand with sales of property, vehicles, motorcycles, etc

on the rise which has benefited the business of our tiles and motorcycles divisions.

FINANCIAL REVIEW

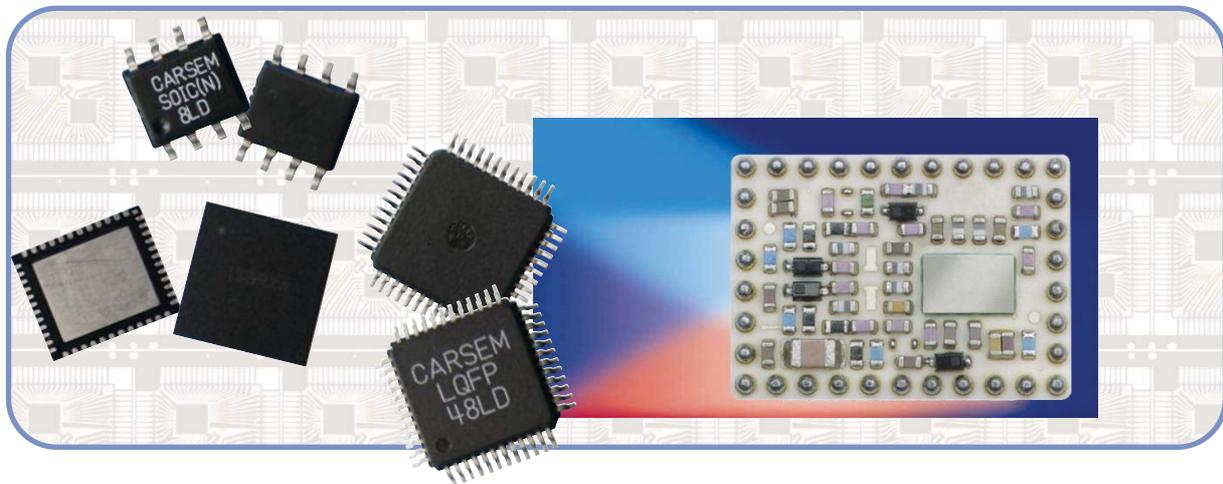
The Group recorded a profit before taxation of RM199.2 million for the financial year ended 30 June 2004 ("FY 2004") as compared with RM51.2 million achieved in the previous financial year. The significant improvement of the Group's results was attributable mainly to the overall improved performance of the semiconductor, building materials and motorcycles divisions coupled with the increase in share of profits of associated companies.

At Company level, profit before taxation was RM128.2 million as compared with RM28.7 million achieved in the previous financial year. The higher profit at Company level was mainly due to a gain of RM36.4 million from the liquidation of a subsidiary of the Company coupled with higher dividend income received from its major subsidiaries in the semiconductor, building materials and motorcycles sectors in line with the improved performance of the said subsidiaries during the financial year.



CHAIRMAN'S STATEMENT

statement (cont'd)



BUSINESS REVIEW

Semiconductor

The Group's semiconductor division recorded a revenue of RM1.2 billion for the FY 2004, a 34% growth from the previous year whilst operating profit for FY 2004 was RM175.2 million, a three-fold increase over last year's RM62.5 million. This business division had enjoyed nine consecutive quarters of profitability, marking a sustained return to profitability after the severe semiconductor industry downturn that commenced in year 2001.

The past year had seen strong consumer spending in America, China, Japan and to a lesser extent Europe. The computer industry was strong as improved profitability gave companies the confidence to replace or upgrade hardware. The inventory of cellphones, that had been one of the major causes of the last downturn, has been reduced and the introduction of new models with new features resulted in substantial growth.

An important outcome from the last downturn was the reduction of costs throughout the supply chain leading to selling price reduction of consumer electronic goods. It had also been encouraging to see the semiconductor companies manage their inventory more prudently.

Carsem (M) Sdn Bhd ("Carsem") achieved a year-on-year revenue growth of 40%. The quantities of the traditional, leaded packages had recovered to levels higher than before the downturn and the market acceptance and growth of its new product, Micro Leadframe Package ("MLP"), had been encouraging.

The MLP product line continued to achieve the highest growth, shipping 620 million units this year, compared with 148 million units in the financial year ended 30 June 2003 ("FY 2003"), making Carsem one of the largest producers of MLPs in the world. We continue to lead the industry in MLP technologies and while most of the current products are for the cellphone and disc-drive markets, Carsem is working on a variety of MLP applications for opto, power and multi-chip integration. The launching of our high-density low-cost MLP programme ensures that Carsem is well positioned to gain market share going forward.

Another area of high growth is in Test services. As our customers exit or downsize their in-house Test operations and with the emergence of many fabless companies, the demand for Test services will be even higher. It is clear that in order to win business today, one has to provide a complete assembly and Test turnkey solution. With its continuous focus and investments into Test, the Group is well positioned for this business.

Dynacraft Industries Sdn Bhd ("Dynacraft"), the segment's leadframe design and manufacturing arm, achieved year-on-year growth of 19% and continued with major transformations in all aspects of its business, basically repositioning the company towards outperforming the leadframe industry, resulting in improved balance sheet and healthy cashflow indices.

Dynacraft is now supporting a wide range of leadframes for MLP packages and has successfully developed the M.E.P., "Mould Enhancement Process" to improve its

CHAIRMAN'S STATEMENT

statement (cont'd)

customers' package "moisture sensitivity levels". This is complemented by further improvements on their "Lead-free, Pre-plated" leadframe technology, which is anticipated to be an industry standard in the next few years. Its success in developing and promoting this technology had paved the way for it to increase its market share with a number of key customers.

This business division had invested a total of RM274 million into property, plant and equipment over the past twelve months. A substantial portion of these investments went into enhancing new product capabilities, Test, people skills, computer systems and research and development.

The expansion of the semiconductor assembly and Test business into The People's Republic of China is progressing smoothly. Carsem Semiconductor (Suzhou) Co., Ltd was still at pre-operating stage for the whole of FY 2004. The factory building which was ready for occupation in February had started running customers qualifications on MLP's and is scheduled to be officially opened in September 2004.

Going forward, our semiconductor business is expected to

benefit from the continuing trend of outsourcing activities as customers move to downsize their internal assembly and Test capacities in efforts to reduce cost and cycle time.

With solid business fundamentals, an experienced management team and healthy financials, our leadership in new packaging and leadframe technologies would ensure the prospects of our semiconductor business remain sound.

BUILDING MATERIALS

The ceramic tiles division's revenue for FY 2004 was RM361.5 million, an improvement of 4% compared with the previous financial year. Operating profit for this division however improved by 15% compared with the previous financial year to RM59.8 million. This improvement was made possible by the various structured programmes instituted to propel the division into a highly competitive division.

The structured programmes had ensured competitive manufacturing cost at all the 4 factories in Malaysia. In areas where the division was not competitive, outsourcing of products or processes would be the outcome thus reinforcing the strategy of driving cost to a competitive



CHAIRMAN'S STATEMENT

statement (cont'd)



level. The division focuses on the needs of customers when formulating and developing new products and this had enhanced profitability and helped promote "Ceramiche Guocera" as the brand not only in Malaysia but also in other countries which the division exports to.

Royal Customs and Excise Department Malaysia had instituted a mandatory standards requirement for ceramic base products under the Customs (Prohibition of Imports) (Amendment) Order 2004 with effect from 12 February 2004. The standard requires all ceramic products coming into Malaysia to be product certified by either SIRIM or IKRAM as well as consignment tested before entry into Malaysia. The imposition of this standard had helped stabilise pricing of ceramic tiles especially the porcelain tiles and helped ensure a more level playing field for all Malaysian manufacturers when competing with imported products with undisclosed standards into the country.

MOTORCYCLES

The motorcycles division recorded a revenue of RM422.3 million for FY 2004, a 20% improvement compared with the previous financial year. On the back of higher revenue, the division returned to the black and posted an operating profit of RM21.2 million for the financial year under review.

Domestically, the motorcycles' market size for the financial year under review grew by 40% year-on-year from 261,495 units in FY 2003 to 366,169 units in FY 2004. The strong industry growth also resulted in Yamaha recording a 26.5% year-on-year growth.

During the financial year under review, Yamaha launched 2 new models to widen its product range, namely the Ego, Yamaha's new scooter in March 2004 and the SRV, a 4 stroke moped, to compete in the low price segment in June 2004. Both the models introduced had received wide acceptance and contributed positively to Yamaha's improved market share and profitability.

With Yamaha's continued drive for quality, improved productivity in manufacturing, cost reduction and innovation in its products, the division is expected to further strengthen its market share and profitability in the next financial year.

Yamaha's drive for continuous improvement in productivity was also recognised with Hong Leong Yamaha Motor Sdn Bhd ("HLYM") being awarded the TPM Excellence Award by the Japanese Institute of Plant Manufacturing, the 8th company in Malaysia to be awarded this prestigious award.

Our 24% investment in Yamaha Motor Vietnam Co Ltd also reported significant improvement in its operations for the financial year under review. The market in Vietnam remained buoyant and Yamaha was able to capitalise on the strong market with its newly launched models. We expect this investment to continue to contribute positively to the overall motorcycles division.



CHAIRMAN'S STATEMENT

statement (cont'd)



The MZ operations in Germany remained difficult and was adversely affected by soft market conditions in Europe and USA. During the financial year under review, the operations continued to operate in the red.

MZ Motorrad- und Zweiradwerk GmbH ("MZ Motorrad GmbH") launched its new 1000S motorcycle in November 2003 and sales commenced in January 2004. We are confident that the sales of this model will be able to contribute positively to the division.

During the financial year under review, MZ Motorrad GmbH acquired a research and development company, MZ Engineering GmbH. The acquisition was made to complement and strengthen its research and development capabilities in motorcycles.

MZ Motorrad Sdn Bhd ("MZ Motorrad") made steady progress in the Malaysian market following the launch of its new Moskito 125RX. In the scooter segment, MZ Motorrad was able to achieve a market share of 12% in this segment and with planned introduction of new models in the new financial year, it is expected to make further progress in the Malaysian market.

Millennium Motors Company Limited, our investment in Thailand, suffered a small decline in its contract assembly operations for the financial year under review. Plans are being put in place to introduce the MZ brand motorcycles in the Thailand market in the new financial year.

CAMERLIN GROUP

The Group has a 27.1% stake in Camerlin Group Berhad which in turn has a 22.3% stake in BIL International Limited ("BIL"), a company with a primary listing on the Singapore Stock Exchange and a secondary listing on the London Stock Exchange.

In line with BIL's continuing effort to dispose of its non core assets and to reduce its debts level, BIL had during the financial year disposed of all its shares in Air New Zealand for a total cash consideration of NZ\$96.4 million which had resulted in a gain on disposal of USD21.1 million. BIL had also, through its wholly-owned subsidiary, Thistle Hotels Limited, dispose of two of the hotels, namely London Ryan and Thistle Islington, for a total cash consideration of £55.0 million (USD101.0 million).



CHAIRMAN'S STATEMENT

statement (cont'd)

SIGNIFICANT CORPORATE DEVELOPMENTS

Subsequent to the financial year end, the Company had, on 6 August 2004, announced that the Company is proposing to undertake an internal rationalisation exercise involving its Yamaha operations in Malaysia which entails the following steps:-

- (a) Proposed acquisition by HLYM of 588,000 ordinary shares of RM1.00 each in HL Yamaha Motor Research Centre Sdn Bhd ("HLYMRC") representing HLI's entire 49% equity interest in HLYMRC for a cash consideration of RM588,000; and
- (b) Proposed acquisition by HLYM of the business of Hong Leong Yamaha Distributors Sdn Bhd ("HLYD"), a 74% subsidiary of the Company, for a cash consideration calculated based on the value of the net assets of HLYD's business acquired as at 31 December 2004 or such other date as may be mutually agreed upon between the parties.

The proposals are now pending approval of the shareholders of HLI.

FUTURE AND PROSPECTS

Notwithstanding the challenging operating environment ahead and barring any unforeseen circumstances, the Board expects the businesses of the Group to perform satisfactorily in the new financial year ending 30 June 2005.

DIVIDENDS

The Company had declared and paid a first and second interim dividend totalling 1.25 sen per share tax exempt and 5.0 sen per share less tax during the financial year under review. The Board does not recommend any final dividend for the FY 2004.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to the management team and all the employees for their dedication and commitment to the Group.

I would also like to extend my appreciation to our shareholders and the authorities for their continued support and confidence in the Group.

QUEK LENG CHAN
Chairman

Kuala Lumpur
26 August 2004

