



Hong Leong Industries Berhad (5486-P)

A Member of the Hong Leong Group

**ANNUAL
REPORT
2010**

Hong Leong Industries Berhad (5486-P)

CONTENTS

2	Company Profile
3	Corporate Information
4	Notice of Annual General Meeting & Statement Accompanying Notice of Annual General Meeting
5	Directors' Profile
8	Chairman's Statement
10	President & Chief Executive Officer's Review
14	Corporate Social Responsibility
19	Corporate Governance and Internal Control
25	Board Audit & Risk Management Committee Report
28	Group Financial Highlights
29	Financial Statements
88	Other Information
	Form of Proxy

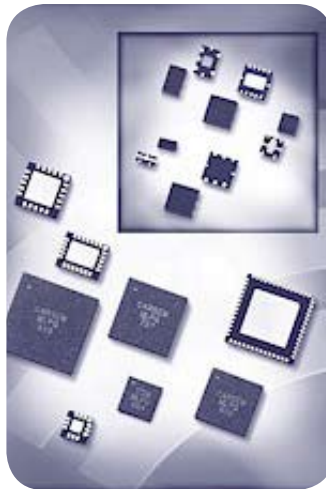


COMPANY PROFILE

Hong Leong Industries Berhad (“HLI”) is a public listed company and its shares are traded on the Main Market of Bursa Malaysia Securities Berhad. HLI is principally an investment holding company.

The activities of the subsidiaries are manufacturing, assembling, testing and sale of integrated circuits, semiconductor devices, electronic components and leadframes, manufacture and assembly of motorcycles, scooters and related parts and products, distribution of motorcycles and motorcycle components and manufacture and sale of ceramic tiles.

Associated companies are involved in the manufacture, procure and assembly of motorcycles, motorcycle engines and spare parts, and manufacture and sale of newsprint and related paper products.



CORPORATE INFORMATION

DIRECTORS

YBhg Tan Sri Quek Leng Chan

Executive Chairman

YBhg Datuk Kwek Leng San

President & Chief Executive Officer

YAM Tunku Dara Tunku Tan Sri

Naquiah bt Almarhum Tuanku Ja'afar

YBhg Dato' Ahmad Johari bin Tun Abdul Razak

YM Raja Dato' Seri Abdul Aziz bin Raja Salim

Mr Chuah Chuan Thye

Mr Peter Nigel Yates

COMPANY 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

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-seventh 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 Thursday, 14 October 2010 at 11.30 a.m. in order:

1. to lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2010;
2. to approve the payment of Director fees of RM290,000/- for the financial year ended 30 June 2010, to be divided amongst the Directors in such manner as the Directors may determine; **(Resolution 1)**
3. to re-elect the following retiring Directors:
(a) YBhg Tan Sri Quek Leng Chan **(Resolution 2)**
(b) YBhg Datuk Kwek Leng San **(Resolution 3)**
(c) Mr Peter Nigel Yates; **(Resolution 4)**
4. to pass the following motion as an Ordinary Resolution:
"THAT YM Raja Dato' Seri Abdul Aziz bin Raja Salim, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the conclusion of the next Annual General Meeting." **(Resolution 5)**
5. to re-appoint Messrs Ling Kam Hoong & Co as Auditors of the Company and authorise the Directors to fix their remuneration; **(Resolution 6)**
6. as a special business, to consider and, if thought fit, pass the following motion as an Ordinary Resolution:

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 from time to 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 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 **(Resolution 7)**

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

By Order of the Board

Joanne Leong Wei Yin
Company Secretary

Kuala Lumpur
22 September 2010

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 of the meeting or adjourned meeting.
3. Ordinary Resolution On Authority To Directors To Issue Shares

The proposed ordinary resolution, if passed, will give a renewed mandate to the Directors of the Company to issue ordinary shares of the Company from time to time provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being ("Renewed Mandate"). The Renewed Mandate, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting held on 20 October 2009 and which will lapse at the conclusion of the Forty-seventh Annual General Meeting.

The Renewed Mandate will enable the Directors to take swift action in case of, inter alia, a need for corporate exercises or in the event business opportunities or other circumstances arise which involve the issue of new shares, and to avoid delay and cost in convening general meetings to approve such issue of shares.

Statement Accompanying Notice of Annual General Meeting

(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)

- Details of individuals who are standing for election as Directors

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

DIRECTORS' PROFILE

YBHG TAN SRI QUEK LENG CHAN

Executive Chairman/Non-Independent

Tan Sri Quek Leng Chan, aged 67, 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 is the Executive Chairman of Hong Leong Industries Berhad ("HLI") and was appointed to the Board of Directors ("Board") of HLI on 12 May 1969. He does not sit on any committee of HLI.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad ("HLCM"), a public company, Executive Chairman of Narra Industries Berhad ("Narra") and GuocoLand (Malaysia) Berhad, Chairman of Hong Leong Financial Group Berhad, Hong Leong Bank Berhad ("HLB") and HLG Capital Berhad, companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), and Chairman of Hong Leong Assurance Berhad, Hong Leong Islamic Bank Berhad and Hong Leong Foundation ("HLF"), all public companies.

Tan Sri Quek attended all the Board meetings of HLI held during the financial year ended 30 June 2010.

YBHG DATUK KWEK LENG SAN

President & Chief Executive Officer/Non-Independent

Datuk Kwek Leng San, aged 55, 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 has extensive business experience in various business sectors, including financial services and manufacturing.

Datuk 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 does not sit on any committee of HLI.

He is the Executive Chairman of Malaysian Pacific Industries Berhad ("MPI"), Managing Director of Narra, Chairman of Southern Steel Berhad ("SSB") and a Director of HLB, companies listed on the Main Market of Bursa Securities. He is also a Director of HLCM, Hume Industries (Malaysia) Berhad, Hong Leong Marketing Co Berhad and HLF, all public companies.

He attended all the Board meetings of HLI held during the financial year ended 30 June 2010.

YAM TUNKU DARA TUNKU TAN SRI NAQUIAH BT ALMARHUM TUANKU JA'AFAR

Non-Executive Director/Independent

YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar, aged 65, 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 Sdn Bhd.

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 attended all the Board meetings of HLI held during the financial year ended 30 June 2010.

DIRECTORS' PROFILE

(cont'd)

YBHG DATO' AHMAD JOHARI BIN TUN ABDUL RAZAK

Non-Executive Director/Independent

Dato' Ahmad Johari bin Tun Abdul Razak, aged 55, 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. Presently, he is a Partner of a law firm in Kuala Lumpur. He was previously the Executive Chairman of Ancom Berhad ("Ancom").

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 the Chairman of Ancom and Daiman Development Berhad, and a Director of Nylex (Malaysia) Berhad and British American Tobacco (Malaysia) Berhad, companies listed on the Main Market of Bursa Securities. He is also a Director of Daiman Golf Berhad and Deutsche Bank (Malaysia) Berhad, both public companies.

He attended all the Board meetings of HLI held during the financial year ended 30 June 2010.

YM RAJA DATO' SERI ABDUL AZIZ BIN RAJA SALIM

Non-Executive Director/Independent

YM Raja Dato' Seri Abdul Aziz bin Raja Salim, aged 71, is a Honorary Fellow of the Malaysian Institute of Taxation, Fellow of the Chartered Association of Certified Accountants, United Kingdom, Fellow of the Chartered Institute of Management Accountants ("CIMA"), United Kingdom and a Chartered Accountant (Malaysia). He served as Director-General of Inland Revenue Malaysia from 1980 to 1990 and Accountant-General Malaysia from 1990 to 1995. YM Raja Dato' Seri Abdul Aziz was the President of CIMA, Malaysia from 1976 to 1993 and a Council Member of CIMA, United Kingdom from 1990 to 1996. He was awarded the CIMA Gold Medal in recognition of his outstanding service to the accounting profession.

YM Raja Dato' Seri Abdul Aziz was appointed to the Board of HLI on 14 November 2008. He is a member of the Board Audit & Risk Management Committee of HLI.

He is a Director of SSB, Gamuda Berhad, Jerneh Asia Bhd, PPB Group Berhad, K & N Kenanga Holdings Berhad and Panasonic Manufacturing Malaysia Bhd, companies listed on the Main Market of Bursa Securities. He is also a Director of Kenanga Investment Bank Berhad, Kenanga Fund Management Berhad, Jerneh Insurance Bhd and Amanah Saham Mara Berhad, all public companies.

He attended all the Board meetings of HLI held during the financial year ended 30 June 2010.

MR CHUAH CHUAN THYE

Non-Executive Director/Non-Independent

Mr Chuah Chuan Thye, aged 54, 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 attended three (3) out of the four (4) Board meetings of HLI held during the financial year ended 30 June 2010.

DIRECTORS' PROFILE

(cont'd)

MR PETER NIGEL YATES

Non-Executive/Non-Independent

Mr Peter Nigel Yates, aged 54, a British, graduated from University of Wales, United Kingdom with a Bachelor of Science (Honours) degree in Electronic Engineering. He also holds a Diploma in Management from University of Coventry, United Kingdom.

He has extensive experience of more than 30 years in the semiconductor industry and has managed large scale of semiconductor manufacturing operations in Asia, the United States of America and Europe, in a wide variety of situations, from state-of-the-art technology to mature high volume/low cost activities, from turnaround situations to joint-venture start-ups and from plant closures to expansions and new construction.

Mr Peter Yates joined the MPI Group as Managing Director of Carsem (M) Sdn Bhd on 1 December 2008. Subsequently, on 1 November 2009, he was appointed as the Group Managing Director of MPI, a company listed on the Main Market of Bursa Securities.

He was appointed to the Board of HLI on 1 November 2009. He does not sit on any committee of HLI.

He attended all the Board meetings of HLI held during his office as Director of HLI for the financial year ended 30 June 2010.

Notes:

1. Family Relationship with Director and/or Major Shareholder

YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San and Mr Quek Leng Chye, a major shareholder of HLI, are brothers. Save as disclosed herein, none of the Directors has any family relationship with any other Director and/or major shareholder of HLI.

2. Conflict of Interest

None of the Directors has any conflict of interest with HLI.

3. Conviction of Offences

None of the Directors has been convicted of any offences in the past 10 years.

CHAIRMAN'S 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 2010.

OPERATING ENVIRONMENT

The progress of the global economic recovery remains uncertain despite various government stimulus packages initiated over the past years. The European financial crisis stemming from the down-grading of Greece's financial rating has impacted global financial and consumer confidence, and this has led to a prolonged period of gradual and protracted recovery. Notwithstanding the challenging global environment, the ASEAN economy has managed to weather this uncertainty relatively well, and the Malaysian economy has been on a path to recovery during the financial year ended 30 June 2010 ("FY 2010").

From a contraction of 1.2% in the third quarter of 2009, the local economy rebounded to achieve a strong growth of 10.1% in the first quarter of 2010, led by continued expansion in domestic demand, increased intra-regional export and sustained growth in external demand supported by a global upturn in the electrical and electronics ("E&E") sector.

FINANCIAL REVIEW

The Group recorded a profit before tax ("PBT") of RM286.9 million for FY 2010 as compared with RM88.7 million achieved in the previous financial year ended 30 June 2009 ("FY 2009").

The increase in the Group's PBT in FY 2010 compared with that in FY 2009 was mainly attributable to the improvement in performance of the semiconductor business.

OUTLOOK AND PROSPECTS

Barring any unforeseen circumstances, the Board expects the Group's performance to be satisfactory in the financial year ending 30 June 2011.



CHAIRMAN'S STATEMENT

(cont'd)

DIVIDEND

The Company declared and paid a first and a second interim dividend totalling 17.0 sen per share tax exempt for FY 2010. The Board does not recommend a final dividend for FY 2010.

APPRECIATION

On behalf of the Board, I would like to extend my appreciation to our valued customers, business associates, shareholders, financiers and the authorities for their continuous support and confidence in the Group.

I would also like to extend my sincere appreciation to the management team and all the employees for their contribution, dedication and commitment to the Group.

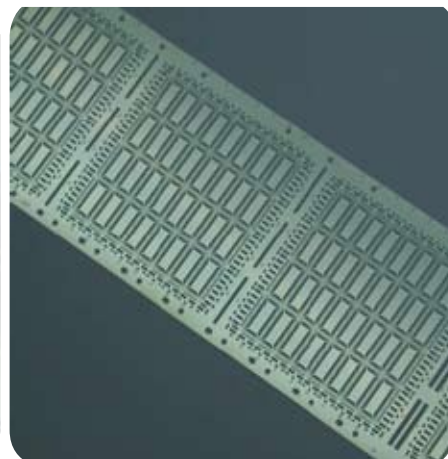
QUEK LENG CHAN

Chairman



PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

For the financial year ended 30 June 2010, the Group recorded a profit before tax of RM286.9 million as compared with RM88.7 million achieved in the previous financial year ended 30 June 2009.



The higher profit before tax in the financial year ended 30 June 2010 ("FY 2010") was mainly attributable to the improvement in performance of the semiconductor business supported by an upturn in the global electrical and electronics ("E&E") industry whilst the Group's consumer products business, which comprises motorcycles and building materials businesses, continued to perform satisfactorily.

SEMICONDUCTOR

FY 2010 has been a year of recovery for the semiconductor industry. Following the dramatic downturn in early 2009, and despite the widely-voiced fear of a prolonged downturn or a double dip, the industry has recovered quite rapidly. Correspondingly, revenue for the semiconductor division has steadily increased throughout FY 2010, an overall increase of 20% as compared with the financial year ended 30 June 2009 ("FY 2009").

This steady increase in revenue coupled with the benefits of the cost saving and productivity programmes implemented have resulted in a significant improvement in profits of the division.

Carsem Semiconductor (Suzhou) Co., Ltd. ("Carsem Suzhou") resumed its expansion with annual output growing vigorously by over 35%, supported by additional capital expenditure on equipment. The existing production floor space is projected to be at full capacity by the end of the financial year ending 30 June 2011 ("FY 2011"), so building expansion plans are now in progress. The plant continues to receive accolades from customers, and we are actively promoting the site to our customers in the United States of America and Europe to balance the regional dependency.

Carsem (M) Sdn Bhd ("Carsem M") has faced the double challenge of ramping production whilst simultaneously reducing costs, in response to falling margins due to the weakening US Dollar. Direct labour has also been a constraint as a result of the Malaysian Government policy limiting the recruitment of foreign workers, although this was resolved by the financial year-end. In response to the cost challenge, we have instituted a comprehensive portfolio review, investing actively in high productivity hardware for growing product lines, and discontinuing certain low volume lines. In parallel, the team has implemented a series of process changes to improve robustness, consistency and efficiency, boosting profitability accordingly.

Dynacraft Industries Sdn Bhd ("Dynacraft") also recorded stronger revenue and profits despite the unfavourable foreign exchange environment and rising metal prices. During FY 2010, capital investment has resulted in a 20% increase in etched leadframe capacity (for Micro Lead Frame Packages applications), from which benefits will start to flow through in FY 2011. Dynacraft is now exploring expansion options in China to support the predicted boom in demand for etched leadframe over the next five years and beyond.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

(cont'd)

SEMICONDUCTOR (cont'd)

Carsem Technology Centre has built extensive competence in developing novel materials and package architectures. We are now able to model and characterise materials exclusive to Carsem, which offer a clear performance advantage over standard commercial offerings. For example, we developed a new electrically conductive die attach adhesive applied to the back of the wafer which permits thinner die and package size reduction. Other technologies include use of copper clip technology which can improve performance in key applications by a factor of ten, new cavity packages for MEMS (sensor) applications, and module applications.

The division is well positioned to benefit from the continued strengthening of the world semiconductor market that we anticipate, and we expect to see further growth in sales and profits in FY 2011.

CONSUMER PRODUCTS

Consumer sentiment moved in tandem with the economic conditions. Consumer confidence in Asia was low at the beginning of FY 2010, but improved gradually and turned positive in the second half of FY 2010 as the region recovered from negative growth in FY 2009. This has helped our consumer products, namely motorcycles and building materials, to gain significant growth in the second half of FY 2010.

Motorcycles

Under the challenging economic environment, the overall new motorcycles industry sales volume declined by 1.4% to 482,031 units from FY 2009. The second half of FY 2010 was, however, more encouraging as demand grew at a robust rate of 14% as compared with the corresponding period of FY 2009.

In FY 2010, Hong Leong Yamaha Motor Sdn Bhd ("HLYM") recorded a domestic sales volume of 170,491 units, a decline of 6.9% over FY 2009. Despite lower sales, profits were higher in FY 2009. This was mainly attributable to better profit margins arising from a positive sales mix, favourable foreign exchange and various factory cost-down activities initiated.

HLYM differentiates from the competition by creating a premium Yamaha brand image. The Yamaha brand equity is ranked highly in the industry and this is backed by effective promotional and motorsports programmes coupled with a network of 24 Exclusive Yamaha Star Shops. We have launched a new service initiative, Yamaha Quality Shops programme, where 5 dealers participated. In January, the branch office in Johore Bahru was relocated to a new full fledged branch in Kempas, providing sales, after-sales service and spare parts to provide quick sales and after-sales support to dealer networks and customers.



PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

(cont'd)

CONSUMER PRODUCTS (cont'd)

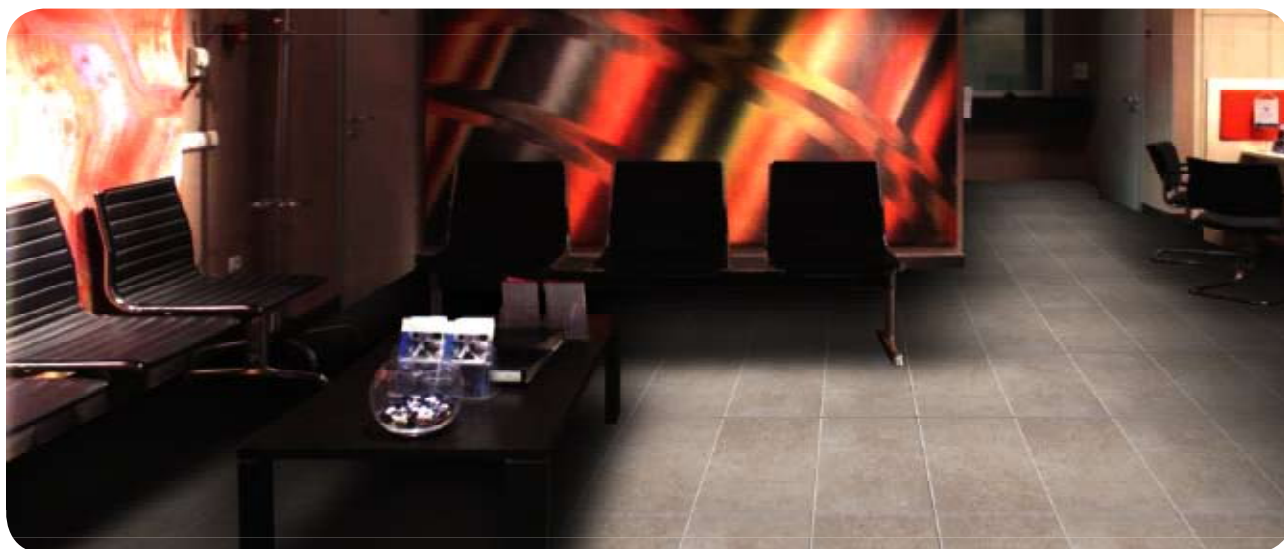
Motorcycles (cont'd)

HYLM plays out its role in social responsibility in tandem with the initiatives by the Government to reduce road accident fatality amongst motorcyclists and pillion riders. The annual Balik Kampung Road Safety (BKRS) campaign conducted in September 2010 was a series of activities undertaken to promote a higher level of awareness on road safety amongst motorcyclists during the Hari Raya festive period. This year marked the campaign's eleventh consecutive year, and the campaign was successfully carried out in five different locations in the country. To further complement the BKRS programme, the Yamaha Safety Riding Science programme initiated three years ago runs in tandem to promote road safety awareness, riding skills and civic consciousness for motorcycle users in colleges and universities throughout the nation.

HYLM has also embarked on a series of investments in facilities and equipment to further automate, expand its capacity and improve its productivity to cater for the anticipated increase in demand. A completely new electro deposition painting line was installed to increase the painting line capacity and provide higher corrosion resistance for the metal components of the motorcycles.

The Group believes that continuous improvement is the key to sustain our competitiveness. Since embarking on synchronised production system in FY 2009, the factory buildings have been strategically linked and process re-engineering activities extensively implemented to further minimise non-value added losses and hence achieve higher productivity and lower inventory levels. The synchronised production system also called for strong and reliable supply-chain management. A comprehensive vendor development programme was introduced to achieve this objective.

Our associate, Yamaha Motor Vietnam Co. Ltd, recorded a year-on-year growth of 43% with an all-time high sales record of 702,077 units as compared with 489,728 units in FY 2009. This was attributed to the strong demand for the Sirius and Nouvo models and the continuing effort to strengthen Yamaha's brand image through strong marketing and promotional activities. Market share for FY 2010 improved to 28.2% from 25.5% in FY 2009.



Building Materials

Despite the positive economic growth in the second half of FY 2010, Guocera division ("Guocera") ended FY 2010 with 1% sales growth as compared with FY 2009. This was caused by the weak market conditions that persisted in our key export markets, especially Australia and the Middle East, as well as the weakening of major trading currencies such as the US Dollar and the Euro, which adversely impacted our international sales. On the domestic market, sales were flat in the first half of FY 2010 as a result of tight liquidity conditions and the very small number of private projects being launched. There was also great price pressure with the influx of imported porcelain tiles from China which has resulted in retail distributors being reluctant to keep high inventories.

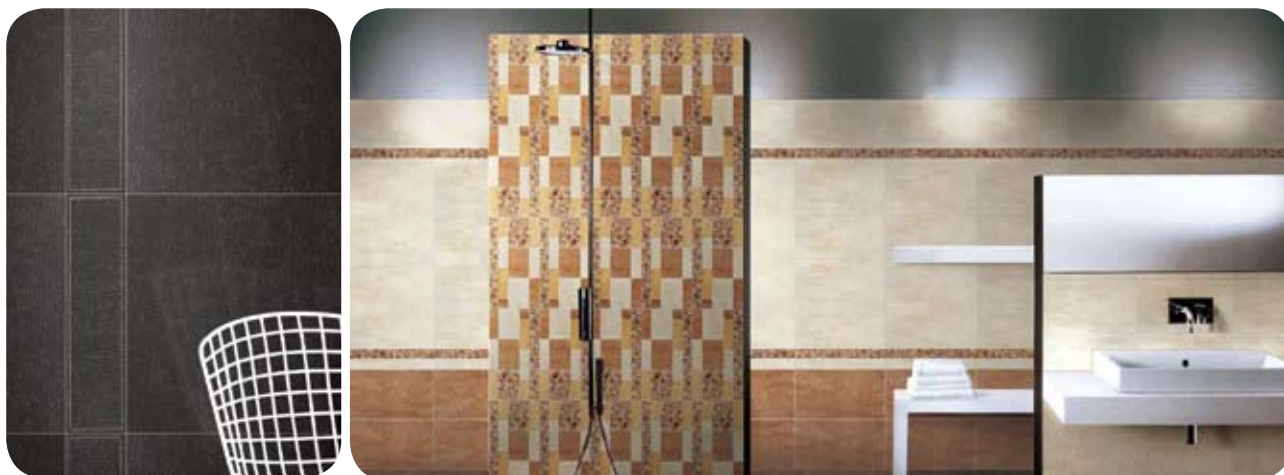
PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

(cont'd)

CONSUMER PRODUCTS (cont'd)

Building Materials (cont'd)

Nevertheless, Guocera recorded an increase in PBT as a result of the ongoing quality and productivity improvement initiatives at all the factories, in addition to the gain realised from the disposal of the Labuan factory.



During FY 2010, Guocera successfully completed its plant upgrading project at the Meru factory, which will increase the plant's capacity and enhance its production performance going forward.

The new integrated plant in Kluang also commenced its commercial production towards the end of FY 2010. This new plant incorporating the latest techniques will put Guocera in the forefront of the ceramic tiles industry in terms of innovation and diversity of designs. This new factory produces primarily bigger format porcelain tiles catering to the mid to high range markets.

Guocera has achieved a key milestone in the overseas expansion. We have, on 26 March 2010, entered into a joint venture ("JV") agreement with Vietnam Infrastructure Development And Construction Corporation ("LICOI") to form a JV company to be known as Guocera Tile Industries (Vietnam) Co., Ltd. ("GTI(V)") in Vietnam. Subsequent to the establishment of GTI(V), GTI(V) shall acquire and operate a factory ("Factory") located in Dong Nai Province, Vietnam, which is currently involved in the production of porcelain tiles. The JV will provide Guocera with the opportunity to expand its tile manufacturing business and to promote the Guocera brand in the growing Vietnamese market.

Moving forward, Guocera remains committed to investing in key growth initiatives to pursue brand leadership and development of new products. Guocera's performance will continue to be sensitive to the growth of the domestic and global economy, as well as raw material and energy costs.

OUTLOOK

Although recent economic indicators suggest that the global financial crisis has eased and the Asian region is recovering, we will continue to exercise caution going forward. We will continue to focus on gaining market share, improving operating and cost efficiency, engaging in research and development on new products and processes, and exploring new business opportunities and markets so as to enhance shareholder value.



KWEK LENG SAN

President & Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY

Long before corporate social responsibility as a single concept was promulgated into guidelines for companies to follow, the Group was already well on its journey. Corporate Social Responsibility (CSR) for the Group has always been more than just about community welfare. It is about having a sustainable business strategy in the face of global demands and challenges. It is also about conducting business with a conscience - caring for the community, the environment, the customers, employees and stakeholders.



ECONOMIC SUSTAINABILITY

For many years now, the Group has had in place internally generated best practices to ensure the economic sustainability of all its companies. Some of these best practices are:

- An established Financial Management Discipline intended to drive excellence in financial management with the objective of preserving and enhancing the quality of business as an on-going concern.
- An established Enterprise Risk Management structure to ensure that a systematic process and delegation of responsibility is clearly set out to guide management. The Group sees Enterprise Risk Management as a serious consideration to protect the company from defaults that could fundamentally damage enterprise value.
- A strict code of business conduct and ethics which the Group abides by in all types of transactions and interactions.
- Public communications, like financial reports, contain disclosures that are fair, accurate, timely and understandable.
- In choosing its directors, the Group seeks individuals of high integrity, have shareholder orientation and a genuine interest in their respective company's businesses. They are tasked with the responsibility of exercising their business judgment to act in what they reasonably believe to be in the best interest of the company and the shareholders they represent.
- The strict practice of responsible selling and marketing of products and services in a global market that is increasingly becoming even more aggressive and competitive.

CORPORATE SOCIAL RESPONSIBILITY

(cont'd)

SOCIAL SUSTAINABILITY

Employee Development and Welfare

The Group has initiated structured development programmes to help develop leadership skills, technical and soft skills among different groups of employees.

The Group's Total Achievers' Group Programme, initiated in financial year 2006/2007, is a structured programme to develop managerial talents into future leaders of the Group. Building on this, we have also initiated a robust talent assessment process to identify and accelerate the development of internal talent. This programme involves employees from the various Group companies.

The Group's Graduate Development Programme aims to identify and develop young talents as part of the Group's long term building of our leadership pipeline. The programme includes proper assessment and selection of graduates and the selected graduates will undergo a structured development programme which includes leadership, quality management and supervisory skills, and projects delivery in addition to proper mentoring and continuous development discussions.

For the executives and non-executives, various in-house and external programmes are conducted to enhance their technical competencies as well as supervisory skills in order to develop a competent workforce.

The Group has also embarked on a Quality and Productivity Programme since 1991, with the aim to inculcate a continuous improvement culture amongst the workforce in the Group. Employees at various levels are trained in using the necessary problem solving tools as a way of employee development and improvement to their workplace.



Diversity and Inclusion

The Group develops talent regardless of race, gender or religious belief. Employee advancement is based on merit and we believe that it is this variety of persuasions and cultures that fuel creativity, entrepreneurship and openness.

The Group also actively promotes work-life balance through various sports, family and social events initiatives. In this regard, various initiatives such as sports activities, social events and family day were carried out with the full support and commitment of the employees throughout the financial year.



Environmental Preservation

As part of our commitment to our employees and to society as a whole, we practise environmental preservation and maintain high standards of Occupational Safety and Health management practices. Environmental management programmes such as recycling campaigns, air pollution controls and waste management programmes are continuously deployed to achieve the Group's objectives.

Our newsprint arm has successfully commissioned its biomass plant in January 2009. The standards of the plant are governed by the requirements of the Kyoto Protocol adopted by the relevant parties to the United Nations Framework Convention on Climate Change. The biomass plant uses biomass fuel, mainly empty fruit bunches and fibre as fuel in substitution to medium fuel oil. With the replacement of medium fuel oil with biomass fuel, we are able to reduce the generation of certain greenhouse gases.

CORPORATE SOCIAL RESPONSIBILITY

(cont'd)

SOCIAL SUSTAINABILITY (cont'd)



Environmental Preservation (cont'd)

In addition, we conduct regular occupational safety and awareness programmes for our employees and participate in road safety campaigns during festive seasons to promote civic consciousness and safe driving habits in our community. Our Yamaha division has been working together with the Ministry of Transport to intensify its road safety riding programme for motorcyclists, Yamaha Safety Riding Science, by reaching out to a wider audience of factory workers who use motorcycles as their primary means of transport, while continuing with free inspection checks for all brands of motorcycles during the Hari Raya festive period.

Earth Hour, a global event where households and businesses are encouraged to turn off non-essential lights and other electrical appliances for one hour to raise awareness towards the need to take action on climate change, was observed by the Group. Our Yamaha division, accredited with ISO 14001, has organised a 3-day environmental awareness campaign at the factory, involving all levels of employees, vendors and relevant government authorities, to promote caring for the Earth, carrying the theme "One Earth, One Heart".

Organised by the World Wildlife Fund, Earth Hour was conceived in Sydney in 2007. Since then, many other cities around the world adopted the event in 2008, and is now held on the last Saturday of March annually. By doing its part, the Group supported this global effort to help make a difference.

COMMUNITY INVESTMENT

The Group conducts most of its philanthropic activities through Hong Leong Foundation, the charitable arm of the Hong Leong Group. Since its incorporation in 1992, the Foundation's programmes have been funded by Group companies' contributions. The Foundation focuses on education and community welfare as its key thrusts and responds to appeals for aid of victims of natural disasters such as floods, tsunamis, and others. Among its focus areas, education in particular, takes top priority.



Scholarship

The Foundation has, as part of its donation framework, designed a Scholarship Programme to benefit academically outstanding Malaysian students from low-income families, and of late also included students with disabilities. The Foundation believes that providing scholarships is about providing opportunities – giving deserving students the chance to have the higher education necessary to break the cycle of poverty and become tomorrow's leaders.

Over 1.5 million Ringgit is allocated each year for scholarship grants for the public for diploma and undergraduate studies at local universities and selected institutions of higher learning. Invitations are also extended to the scholars for industrial training at Group companies to help ensure that scholars graduate into the workforce with sufficient knowledge and relevant experience.

Apart from these, a separate fund is set aside for scholarship grants for deserving children of Group employees. Both grants for the public and Group employees' children are unconditional – they do not carry any repayment requirement nor are the recipients bonded to work for the Group upon graduation.

CORPORATE SOCIAL RESPONSIBILITY

(cont'd)

COMMUNITY INVESTMENT (cont'd)

Scholarship (cont'd)



Certain Group companies provide on-the-job industrial trainings for students to expose them to real life industrial scenarios and impart to them relevant skills and knowledge. Selected students are given a two to six-month attachment programme with our factory operation, undergoing various trainings. The main objective of the programme is to produce skilled labour that is equipped with employable knowledge and industrial know-how.

Student Assistance

Although primary and secondary education in Malaysia is free, there are still a number of students from low-income families who find it a challenge to put this educational opportunity into best use. To address the immediate needs of these students, the Foundation reaches out to them through the Student Assistance Programme. To date, through this Programme, the Foundation has sponsored thousands of underprivileged school children nationwide in the form of distribution of free school bags, books, uniforms, stationeries, dictionaries, bicycles, tuition, transportation fees and others.



School Building Fund

The Foundation actively pursues opportunities where it can play a part in improving the quality of education in the country today. Donations for the construction of bigger and better facilities for learning institutions help create an environment in which students can excel. Towards this end, the Foundation has made substantial donations to various academic and vocational training institutions nationwide with thousands of students benefiting from the improved and/or added facilities.

CORPORATE SOCIAL RESPONSIBILITY

(cont'd)

COMMUNITY INVESTMENT (cont'd)

Community Welfare

Every year, the Foundation helps improve the lives of the less fortunate through its Community Welfare Programme. Sponsorships in cash and kind are made to charities nationwide, ensuring their survival and their ability to provide shelter, food and clothing for all its residents – the young orphans, the aged who have been abandoned by their families, the sick, the disabled and the mentally challenged. The NGOs are also able to run their various training programmes more efficiently with better infrastructure, facilities and equipment sponsored by the Foundation.



The Foundation has made substantial donations to many charities over the years. In this financial year alone, Vinashini Home Seremban, Little Sister of the Poor, Kuala Lumpur, Education, Welfare, Research Foundation, Science of Life 24/7 Malacca, Persatuan Kanak-Kanak Cerebral Palsy (Spastik) Pulau Pinang, Pusat Jagaan Nur Salam, Persatuan Daybreak Perak, Sunflower Centre Sarawak and Sabah Cheshire Home, were amongst some of them.

Apart from activities carried out by the Foundation, Group companies staged their own activities in numerous communities nationwide. The Group's employees regularly participate in community services that include visits to orphanages and welfare homes, assist in the provision of medical services to poor communities through blood donation drives and volunteer work in hospitals as well as initiating and participating in projects involving environmental and social issues.

An inaugural carnival themed "Colour You, Colourful Me" for underprivileged children from various children's shelter was also held this year in conjunction with the Chinese New Year. Various Group employees worked together to create an exciting and fun-filled morning for about 350 children.



Small Enterprise Programme

The people behind the Group are entrepreneurs and we seek to propagate this same spirit of entrepreneurship to the community. By expanding our contribution to the community to include this new category, through our dealings with various charities on programmes designed to help the underprivileged set up their own businesses, we are able to teach people to stand on their own two feet, eventually breaking the cycle of poverty. Over the short term, those whom we help by giving seed money for businesses will be able to generate enough income to be able to provide for their families' needs. Over time, with proper management and guidance, these businesses will grow and, in turn, be able to help others.

Towards this end, we are working with various NGOs, among which are Ray of Hope and The Community Service Centre For the Deaf, Kuala Lumpur.

AWARDS AND RECOGNITION

Our Yamaha division has renewed the quality management system, namely ISO 9001 2008, for another 3 years after passing the re-certification audit.

This Statement on Corporate Social Responsibility is made in accordance with the resolution of the Board of Directors.

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.

The role and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia.

II Board Balance

The Board of Directors comprises seven (7) directors, five (5) of whom are non-executive. Of the non-executive directors, three (3) 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 Executive Chairman leads the Board and, together with the President & Chief Executive Officer ("CEO"), are responsible for the vision and strategic direction of the Group as well as to monitor progress on implementation of Key Performance Areas ("KPA's") and strategic developments.

The CEO's main responsibility is to work with the operating managers to develop strategic business plans and to set out the KPA's for the operating managers as well as to focus on creating value through deployment of the assets in the Group and to seek optimal use of the capital resources available to him.

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 Board Meetings

The Board meets quarterly with timely notices of issues to be discussed. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions.

The Board met four (4) times during the financial year ended 30 June 2010. Details of attendance of each director are disclosed in the Directors' Profile in the Annual Report. At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meetings.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

(cont'd)

A. DIRECTORS (cont'd)

IV 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 and internal auditors. All directors also have access to independent professional advice at the Company's expense, in consultation with the Executive Chairman or the CEO of the Company.

V Appointments to the Board

Given the current size of the Board, the Board is of the view that it is not necessary for the Company to establish a Nominating Committee for the time being and the Board as a whole will serve as the Nominating Committee. 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. A formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, the Board committee and the contribution and performance of each individual director and Board committee member, including the Executive Chairman and CEO.

Having reviewed the assessments in respect of the financial year ended 30 June 2010, the Board is satisfied that the Board and Board committee have continued to operate effectively in discharging their duties and responsibilities. The directors and Board committee members have also fulfilled their responsibilities as members of the Board and Board committee and are suitably qualified to hold their positions.

VI Re-appointment and Re-election

All directors are required to submit themselves for re-election every three (3) years.

Pursuant to Section 129(6) of the Companies Act, 1965, directors of or over the age of seventy (70) years shall retire at every Annual General Meeting ("AGM") and may offer themselves for re-appointment as directors of the Company to hold office until the conclusion of the next AGM.

VII Training and Education

All directors of the Company have completed the Mandatory Accreditation Programme.

As part of the training programme for its directors, the Company has prepared for the use of its directors, the Director Manual, and regularly organises in-house programmes, briefings and updates by its in-house professionals. The directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge.

The Director Manual which is given to every director for their reference, highlights, amongst others, the major duties and responsibilities of a director vis-à-vis various laws, regulations and guidelines governing the same. New directors will also be given a briefing on the businesses of the Group.

During the financial year ended 30 June 2010, the directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any new or changes to the companies and other relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its directors and senior management.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

(cont'd)

A. DIRECTORS (cont'd)

VII Training and Education (cont'd)

The directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as directors.

During the financial year ended 30 June 2010, the directors of the Company, including members of the Board Audit & Risk Management Committee, attended the following training programmes, seminars, briefings and/or workshops:

- Malaysia Goods And Services Tax
- Competency As The Backbone Of Transformation
- Financial Institutions Directors' Education Programme
- Directors' Continuing Education Programme 2009
- The Global Village – No Boundaries, No Limits
- Financial Reporting Standard ("FRS") 139 Financial Instruments (Recognition And Measurement) And FRS 7 Financial Instruments (Disclosure)
- Investor Relations In A Challenging And Uncertain Economic Environment
- The Non-Executive Director Development Series – Is It Worth The Risk
- Implications Of The Companies (Amendment) Act 2007 On Companies And Directors'
- Enterprise Risk Management In Today's Economy Red-Flags & Land Mines In Financial Accounts.

B. DIRECTORS' REMUNERATION

I Level and Make-Up of Remuneration

The Company does not have a Remuneration Committee. The Board is of the view that it is not necessary for the Company to establish a Remuneration Committee for the time being given the current size of the Board. The Board as a whole functions as the 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.

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

II Procedure

The remuneration packages of executive directors are reviewed by the entire Board, with the presence of a majority of non-executive directors. The executive director concerned shall not participate in the deliberations and shall vacate the meeting room during deliberations of his remuneration package.

The Board, in assessing and reviewing the remuneration packages of executive directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are 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 AGM.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

(cont'd)

B. DIRECTORS' REMUNERATION (cont'd)

III Disclosure

The aggregate remuneration of directors (including remuneration of an executive director of a subsidiary and an executive director of a subsidiary who has retired during the financial year) for the financial year ended 30 June 2010 is as follows:

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	220,000	1,585,250	1,805,250
Non-Executive Directors	220,000	2,767,185	2,987,185

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	-	-
50,001 – 100,000	1	5
100,001 – 1,700,000	-	-
1,700,001 – 1,750,000	1	-
1,750,001 – 2,550,000	-	-
2,550,001 – 2,600,000	-	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, 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.

The Company has a website at <http://www.hli.com.my> which the shareholders can access for information which includes corporate information, announcements, financial information, products information and investor relations.

In addition, the Chief Financial Officer could provide shareholders and investors with a channel of communication in which they can provide feedback to the Group.

Queries may be conveyed to the following person:

Name : Mr Soon Wing Chong
Tel No : 03 - 2164 2631
Fax No : 03 - 2715 4808
E-mail Address : IRelations@hli.com.my

II 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. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

(cont'd)

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 all independent 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 2010. Details of attendance of the Committee members are set out in the Board Audit & Risk Management Committee Report appearing on page 26 of the Annual Report. The head of finance, head of internal audit, risk manager, CEO and senior management may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

Issues raised, discussions, deliberations, decisions and conclusions made at the Committee meetings are recorded in the minutes of the Committee meetings. Where the Committee is considering a matter in which a Committee member has an interest, such member abstains from reviewing and deliberating on the subject matter.

The Committee is supported by the Internal Audit Department which 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.

At least twice a year, the Committee will have a separate session with the external auditors without the presence of executive directors and management.

E. STATEMENT ON INTERNAL CONTROL

The Board of Directors, recognising its responsibilities in ensuring sound internal controls, has put in place 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;

CORPORATE GOVERNANCE AND INTERNAL CONTROL

(cont'd)

E. STATEMENT ON INTERNAL CONTROL (cont'd)

- 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 to administer the risk management framework. The Risk Manager 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 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.

F. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The Main Market 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 financial position of the Group and of the Company as at the end of the financial year and of its financial performance and cash flows 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 2010, 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.

This Statement on Corporate Governance and Internal Control is made in accordance with the resolution of the Board of Directors.

BOARD AUDIT & 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 Almarhum Tuanku Ja'afar
Independent Non-Executive Director

YM Raja Dato' Seri Abdul Aziz bin Raja Salim
Independent Non-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, competency 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

(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, risk manager, President & Chief Executive Officer and senior management may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

Issues raised, discussions, deliberations, decisions and conclusions made at the Committee meetings are recorded in the minutes of the Committee meetings. Where the Committee is considering a matter in which a Committee member has an interest, such member abstains from reviewing and deliberating on the subject matter.

At least twice a year, the Committee will have a separate session with the external auditors without the presence of executive directors and management.

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 2010, four (4) Committee meetings were held and all the meetings were attended by all the Committee members. The Committee had two (2) separate sessions with the external auditors without the presence of executive directors and management.

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.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

(cont'd)

ACTIVITIES (cont'd)

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 reviewed various related party transactions carried out by the Group.

INTERNAL AUDIT

The Internal Audit ("IA") function is carried out in-house by the IA Department of HLI-HUME Management Co Sdn Bhd ("HLI-HUME"), a company owned by HLI and Hume Industries (Malaysia) Berhad ("HIMB") in the equity ratio of 51% and 49% respectively. The provision of the IA services is part of the shared services of companies within the HLI Group and the HIMB Group. The total cost incurred by the IA Department of HLI-HUME for the financial year ended 30 June 2010 amounted to RM849,000.

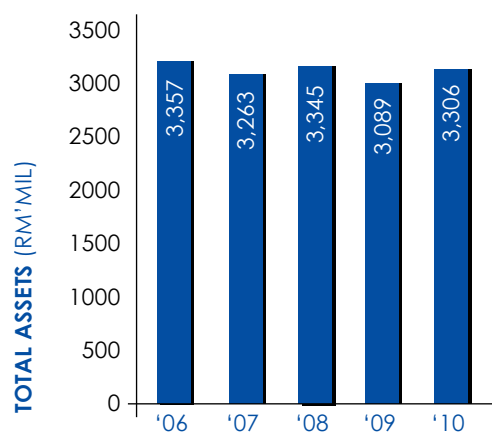
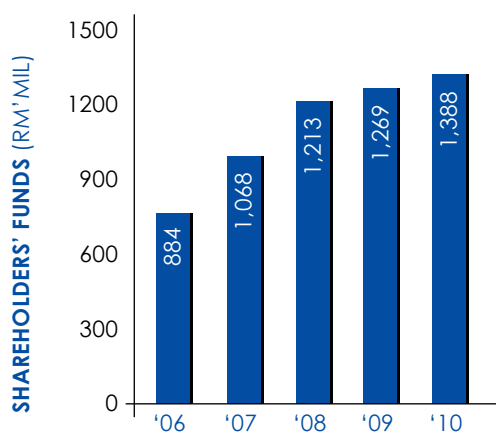
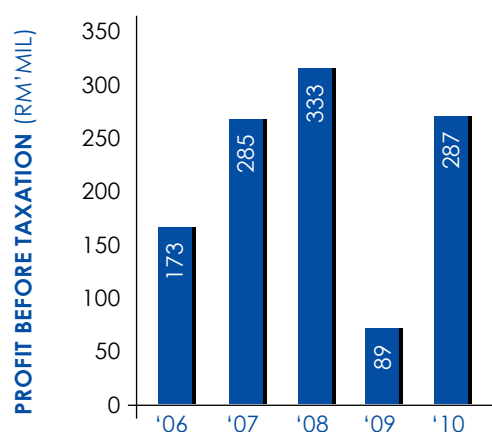
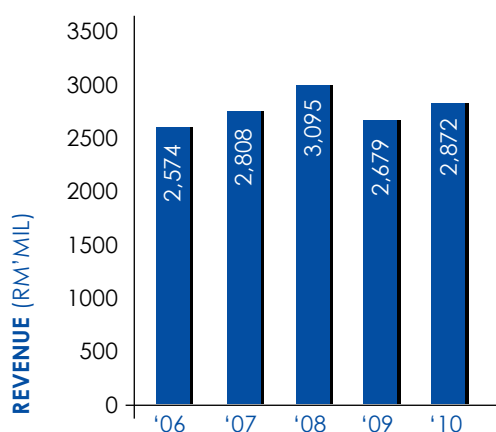
The IA Department reports to the Committee of HLI. The IA function is performed with impartiality, proficiency and due professional care. The IA Department supports the Committee of HLI in the effective discharge of its responsibilities in respect of governance, internal controls and the risk management framework of the Group. This is accomplished by the periodic assessment and internal audits conducted to ensure compliance with systems and standard operating procedures of the Group.

Audit plans developed by the IA Department are submitted to the Committee for review and agreement. Internal audits are implemented as agreed. The resulting salient control concerns raised are reviewed and the implementation status of audit recommendations are monitored and reported to the Committee on a quarterly basis.

This Board Audit & Risk Management Committee Report is made in accordance with the resolution of the Board of Directors.

GROUP FINANCIAL HIGHLIGHTS

(RM'mil)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenue	2,574	2,808	3,095	2,679	2,872
Profit Before Taxation	173	285	333	89	287
Profit Attributable to Equity Holders of the Company	43	129	178	75	194
Net Earnings Per Share (sen)	17	53	68	29	74
Net Dividend Per Share (sen)	10	7	11	10	17
Shareholders' Funds	884	1,068	1,213	1,269	1,388
Total Assets	3,357	3,263	3,345	3,089	3,306
Capital Expenditure	388	233	300	179	296



Hong Leong Industries Berhad (5486-P)

FINANCIAL STATEMENTS

30	Directors' Report
38	Balance Sheets
39	Income Statements
40	Statements of Changes in Equity
43	Cash Flow Statements
45	Notes to the Financial Statements
85	Statement by Directors
85	Statutory Declaration
86	Independent Auditors' Report



DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, whilst the principal activities of the subsidiary companies and associated companies are as stated in Note 3 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit attributable to equity holders of the Company	293,556	52,129

DIVIDENDS

Since the end of the previous financial year, the Company paid:-

- (i) a first interim dividend of 7 sen per share tax exempt amounting to RM19,090,006 in respect of the financial year ended 30 June 2010 on 21 December 2009; and
- (ii) a second interim dividend of 10 sen per share tax exempt amounting to RM27,271,337 in respect of the financial year ended 30 June 2010 on 28 June 2010.

The Directors do not recommend a final dividend for the financial year ended 30 June 2010.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in the financial statements.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:-

YBhg Tan Sri Quek Leng Chan (Executive Chairman)
YBhg Datuk Kwek Leng San (President & Chief Executive Officer)
YAM Tunku Dara Tunku Tan Sri Naquiah bt Almarhum Tuanku Ja'afar
YBhg Dato' Ahmad Johari bin Tun Abdul Razak
Mr Chuah Chuan Thye
YM Raja Dato' Seri Abdul Aziz bin Raja Salim
Mr Peter Nigel Yates (Appointed on 1-11-2009)
Mr David Edward Comley (Retired on 30-9-2009)

In accordance with Article 115 of the Company's Articles of Association, YBhg Tan Sri Quek Leng Chan and YBhg Datuk Kwek Leng San retire by rotation from the Board and, being eligible, offer themselves for re-election.

DIRECTORS' REPORT

(cont'd)

DIRECTORS OF THE COMPANY (cont'd)

In accordance with Article 94 of the Company's Articles of Association, Mr Peter Nigel Yates retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

YM Raja Dato' Seri Abdul Aziz bin Raja Salim retires in accordance with Section 129(2) of the Companies Act, 1965 ("Act"). The Board recommends that he be re-appointed under the provision of Section 129(6) of the Act to hold office until the conclusion of the next Annual General Meeting.

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or preference shares and/or options/convertible bonds of the Company and/or its related corporations during the financial year ended 30 June 2010 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:-

Number of ordinary shares and/or preference shares/*shares issued or to be issued or acquired arising from the exercise of options/ convertible bonds					
	Nominal value per share RM	At 1-7-2009/ Date of Appointment	Acquired	Sold	At 30-6-2010
Shareholdings in which Directors have direct interests					
Interests of					
YBhg Tan Sri Quek Leng Chan in:-					
Hong Leong Company (Malaysia) Berhad	1.00	390,000	-	-	390,000
Hong Leong Financial Group Berhad	1.00	4,989,600	-	-	4,989,600
Guoco Group Limited	US\$0.50	1,656,325	-	600,000	1,056,325
GuocoLand Limited	∞	20,062,965	-	10,062,965	10,000,000
Hume Industries (Malaysia) Berhad	1.00	2,000,000	-	2,000,000 ♦	-
Narra Industries Berhad	1.00	8,150,200	-	-	8,150,200
GuocoLand (Malaysia) Berhad	0.50	19,506,780	-	-	19,506,780
GuocoLeisure Limited	US\$0.20	735,000	-	-	735,000
Interests of					
YBhg Datuk Kwek Leng San in:-					
Hong Leong Company (Malaysia) Berhad	1.00	117,500	-	-	117,500
Hong Leong Industries Berhad	0.50	2,520,000	-	-	2,520,000
Malaysian Pacific Industries Berhad	0.50	315,000	-	-	315,000
HLG Capital Berhad	1.00	119,000	-	-	119,000
Hong Leong Bank Berhad	1.00	385,000	-	-	385,000
Guoco Group Limited	US\$0.50	209,120	-	-	209,120
Hong Leong Financial Group Berhad	1.00	600,000	-	-	600,000

DIRECTORS' REPORT

(cont'd)

DIRECTORS' INTERESTS (cont'd)

Number of ordinary shares and/or preference shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds					
	Nominal value per share RM	At 1-7-2009/ Date of Appointment	Acquired	Sold	At 30-6-2010
Shareholdings in which <u>Directors have direct interests</u>					
Interest of YBhg Dato' Ahmad Johari bin Tun Abdul Razak in:-					
Hong Leong Industries Berhad	0.50	17,600	-	-	17,600
Interest of Mr Peter Nigel Yates in:-					
Malaysian Pacific Industries Berhad	-	250,000*	-	-	250,000*
Shareholdings in which <u>Directors have indirect interests</u>					
Interests of YBhg Tan Sri Quek Leng Chan in:-					
Hong Leong Company (Malaysia) Berhad	1.00	13,019,100	-	-	13,019,100
Hong Leong Fund Management Sdn Bhd	1.00	1,400,000	600,000	-	2,000,000###
Hong Leong Financial Group Berhad	1.00	824,437,300	-	-	824,437,300
	-	2,500,000*@@	-	375,000~	2,125,000*@@
HLG Capital Berhad	1.00	92,590,545	107,072,682	4,400,000	195,263,227
Hong Leong Bank Berhad	1.00	965,745,100	1,994,500	-	967,739,600
Hong Leong Tokio Marine Takafu Berhad	1.00	65,000,000	-	-	65,000,000
Hong Leong Industries Berhad	0.50	195,413,037@@	2,856,800	-	198,269,837@@
Hong Leong Yamaha Motor Sdn Bhd	1.00	17,352,872	-	-	17,352,872
Guocera Tile Industries (Meru) Sdn Bhd	1.00	19,600,000	-	-	19,600,000
Hong Leong Maruken Sdn Bhd (In members' voluntary liquidation)	1.00	1,750,000	-	-	1,750,000
Guocera Tile Industries (Labuan) Sdn Bhd	1.00	6,545,001	-	-	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	1.00	10,560,627	-	-	10,560,627
RZA Logistics Sdn Bhd	1.00	7,934,247	-	-	7,934,247
Malaysian Pacific Industries Berhad	0.50	127,683,309	5,917,700	-	133,601,009
Carter Realty Sdn Bhd	1.00	7	-	-	7
Carsem (M) Sdn Bhd	1.00	84,000,000	-	-	84,000,000
	100.00	22,400##	-	-	22,400##

DIRECTORS' REPORT

(cont'd)

DIRECTORS' INTERESTS (cont'd)

Number of ordinary shares and/or preference shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds					
	Nominal value per share RM	At 1-7-2009/ Date of Appointment	Acquired	Sold	At 30-6-2010
Shareholdings in which Directors have indirect interests					
Interests of					
YBhg Tan Sri Quek Leng Chan in:-					
Hume Industries (Malaysia) Berhad	1.00	121,881,628	183,278,071~~	122,216,828◆	182,942,871###
Narra Industries Berhad	1.00	38,314,000	-	-	38,314,000
Guoco Group Limited	US\$0.50	235,198,529	600,000	-	235,798,529
GuocoLand Limited ("GLL")	∞	579,024,320	55,108,954@@	20,000,000	614,133,274@@
	-	20,973,293*	817,139*	13,328,486*Δ	8,461,946*
First Garden Development Pte Ltd	∞	63,000,000	-	-	63,000,000
Sanctuary Land Pte Ltd	∞	90,000	-	-	90,000
Beijing Minghua Property Development Co., Ltd (In members' voluntary liquidation)	^	150,000,000	-	-	150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	#	19,600,000	-	-	19,600,000
Beijing Jiang Sheng Property Development Co., Ltd	^	247,600,000	2,400,000	-	250,000,000###
Nanjing Xinhaoning Property Development Co., Ltd	#	11,800,800	-	-	11,800,800
Nanjing Xinhaoxuan Property Development Co., Ltd	#	11,800,800	-	-	11,800,800
Nanjing Mahui Property Development Co., Ltd	^	271,499,800	-	-	271,499,800
Beijing Cheng Jian Dong Hua Real Estate Development Company Limited	^	50,000,000	-	-	50,000,000
Lam Soon (Hong Kong) Limited	HK\$1.00	140,008,659	-	-	140,008,659
Kwok Wah Hong Flour Company Limited	HK\$100.00	9,800	-	-	9,800
M.C. Packaging Offshore Limited	HK\$0.01	812,695	-	-	812,695
Guangzhou Lam Soon Food Products Limited	Ω	6,570,000	-	-	6,570,000
GuocoLand (Malaysia) Berhad	0.50	466,555,616@@	-	-	466,555,616@@
Guoman Hotel & Resort Holdings Sdn Bhd	1.00	277,000,000	-	-	277,000,000
JB Parade Sdn Bhd	1.00	28,000,000	-	-	28,000,000
	0.01	68,594,000##	-	-	68,594,000##
GuocoLeisure Limited	US\$0.20	779,248,202	128,561,223	-	907,809,425
Bondway Properties Limited (In members' voluntary liquidation)	GBP1.00	1,134,215ø	-	-	1,134,215ø
		10,332øø	-	-	10,332øø

DIRECTORS' REPORT

(cont'd)

DIRECTORS' INTERESTS (cont'd)

Number of ordinary shares and/or preference shares/*shares issued or to be issued or acquired arising from the exercise of options/ convertible bonds					
Nominal value per share RM	At 1-7-2009/ Date of Appointment		Acquired	Sold	At 30-6-2010

Shareholdings in which
Directors have indirect interests

Interests of

Mr Chuah Chuan Thye in:-

Hong Leong Company (Malaysia) Berhad	1.00	154,650	-	-	154,650
Hong Leong Financial Group Berhad	1.00	9,347,949	-	-	9,347,949
Hong Leong Industries Berhad	0.50	2,284,848	13,000	-	2,297,848
Narra Industries Berhad	1.00	10,000	-	-	10,000
Hong Leong Bank Berhad	1.00	140,000	-	-	140,000
GuocoLand (Malaysia) Berhad	0.50	2,785,485	-	-	2,785,485
GuocoLeisure Limited ("GL")	US\$0.20	2,036,775**	-	-	2,036,775**

Legend:

- ∞ Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005.
- ^ Capital contribution in RMB.
- # Capital contribution in US\$.
- Ω Capital contribution in HK\$.
- @@ Inclusive of shares held by children who are not directors of the company.
- ## Redeemable preference shares.
- ### Became a wholly-owned subsidiary during the financial year.
- Δ Inclusive redemption and cancellation of convertible bonds.
- ** Shares which are credited/transferred to a company in which Mr Chuah Chuan Thye has interest pursuant to the capital distribution of shares of GL to the entitled shareholders of Adjuvant Resources Berhad ("ARB") via a reduction of the share capital and cancellation of ARB's share premium reserve.
- Ø Ordinary - Voting shares.
- ØØ Ordinary - Non voting shares.
- ~ Share option lapsed.
- ~~ Inclusive of acceptances received for shares in respect of voluntary take-over offer.
- ◆ Acceptances of voluntary take-over offer.

DIRECTORS' REPORT

(cont'd)

DIRECTORS' BENEFITS

No Director of the Company has since the end of the previous financial year received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements or as fixed salary of full-time employees of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisitions and/or disposal of shares, stocks-in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties, and/or the provision of services, including but not limited to project and sales management and any other management and consultancy services; and/or the provision of construction contracts, leases, tenancy, dealership and distributorship agreements; and/or the provision of treasury functions, advances and the conduct of normal trading, insurance, investment, stockbroking and/or other businesses between the Company or its related corporations and corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have interest and Mr Chuah Chuan Thye who may be deemed to derive a benefit in respect of those trading transactions, contracts and agreements between related corporations and corporations in which Mr Chuah Chuan Thye is deemed to have interest.

There were no arrangements during and at the end of the financial year which has the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

EXECUTIVE SHARE OPTION SCHEME ("ESOS" OR "SCHEME")

The ESOS of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company which was approved by the shareholders of the Company on 14 October 2005, was established on 23 January 2006 and would be in force for a period of ten (10) years.

On 13 January 2006, the Company announced that Bursa Malaysia Securities Berhad has approved-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS at any time during the existence of the ESOS.

The ESOS would provide an opportunity for eligible executives who have contributed to the growth and development of the Group to participate in the equity of the Company.

The main features of the ESOS are, inter alia, as follows:-

1. Eligible executives are those executives of the Group who have been confirmed in service on the date of offer or directors (executive or non-executive) of the Company and its subsidiaries. The maximum allowable allotments for the full time executive directors have been approved by the shareholders of the Company in a general meeting. The Board may from time to time at its discretion select and identify suitable eligible executives to be offered options.
2. The aggregate number of shares to be issued under the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company for the time being.
3. The Scheme shall be in force for a period of ten (10) years from 23 January 2006.
4. The option price shall not be at a discount of more than ten percent (10%) (or such discount as the relevant authorities shall permit) from the 5-day weighted average market price of the shares of the Company preceding the date of offer and shall in no event be less than the par value of the shares of the Company.
5. The option granted to an option holder under the ESOS is exercisable by the option holder only during his employment with the HLI Group and within the option exercise period subject to any maximum limit as may be determined by the Board under the Bye-Laws of the ESOS.

DIRECTORS' REPORT

(cont'd)

EXECUTIVE SHARE OPTION SCHEME ("ESOS" OR "SCHEME") (cont'd)

6. The exercise of the options may, at the absolute discretion of the Board of the Company, be satisfied by way of issuance of new shares; transfer of existing shares purchased by a trust established for the ESOS ("ESOS Trust"); or a combination of both new shares and existing shares.

Hong Leong Yamaha Motor Sdn Bhd ("HLYM"), a 69.41% subsidiary of the Company, has granted conditional incentive share options ("HLI 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 HLYM ("Option Holders"). The HLI Options granted are 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, HLYM vested the HLI Options over 2,000,000 ordinary shares of RM0.50 each in the Company ("Vested HLI Options") to the Option Holders. During the previous financial year, 800,000 Vested HLI Options, representing 40% of the Vested HLI Options, have lapsed. On 14 February 2010, another 800,000 Vested HLI Options, representing another 40% of the Vested HLI Options, have lapsed. As at 30 June 2010, a total of 1,600,000 Vested HLI Options have lapsed and the balance of the Vested HLI Options stood at 400,000.

The Vested HLI Options, if exercised, will be satisfied by existing HLI shares held by the ESOS Trust.

SHARE CAPITAL AND DEBENTURE

There were no changes in the issued and paid-up capital of the Company and the Company has not issued any debenture during the financial year.

During the financial year, the Company purchased 2,000 ordinary shares of its issued share capital from the open market. The average price for the shares bought back was RM4.35 per ordinary share. The share buy back transactions were financed by internally generated fund. As at 30 June 2010, the total number of shares bought back was 8,432,500 ordinary shares of RM0.50 each which are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

OTHER STATUTORY INFORMATION

Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:-

- (i) all known bad debts have been written off and adequate provision made for doubtful debts; and
- (ii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:-

- (i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and the Company inadequate to any substantial extent; or
- (ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading; or

DIRECTORS' REPORT

(cont'd)

OTHER STATUTORY INFORMATION (cont'd)

- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report there does not exist:-

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except as disclosed in the financial statements, the results of the operations of the Group and of the Company for the financial year ended 30 June 2010 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, Messrs Ling Kam Hoong & Co, have indicated their willingness to accept re-appointment.

On behalf of the Board

Datuk Kwek Leng San

Peter Nigel Yates

Kuala Lumpur
23 August 2010

BALANCE SHEETS

as at 30 June 2010

		Group		Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	4	1,283,701	1,300,242	-	-
Prepaid lease payments	5	35,291	36,977	-	-
Investments in subsidiary companies	6	-	-	845,084	828,437
Investments in associated companies	7	382,946	387,084	265,073	265,073
Other investments	8	60	56	10	10
Intangible assets	9	447,328	482,732	-	-
Other assets	10	-	-	37,702	39,256
Deferred tax assets	11	-	877	-	-
		2,149,326	2,207,968	1,147,869	1,132,776
CURRENT ASSETS					
Inventories	12	190,225	177,236	-	-
Trade and other receivables	13	516,685	425,983	1,058	48,828
Tax recoverable		11,529	17,148	10,585	15,235
Short term investments	14	-	4	-	-
Assets held for sale	15	9,342	-	-	-
Cash and cash equivalents	16	429,160	261,008	16,812	16,666
		1,156,941	881,379	28,455	80,729
TOTAL ASSETS		3,306,267	3,089,347	1,176,324	1,213,505
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Share capital	17	140,573	140,573	140,573	140,573
Reserves	18	1,311,096	1,191,539	633,438	627,670
Treasury shares - at cost	19	(63,318)	(63,309)	(63,318)	(63,309)
		1,388,351	1,268,803	710,693	704,934
MINORITY INTERESTS		638,094	590,410	-	-
TOTAL EQUITY		2,026,445	1,859,213	710,693	704,934
NON-CURRENT LIABILITIES					
Borrowings (unsecured)	20	371,768	377,117	220,000	290,000
Deferred tax liabilities	11	23,043	65,198	-	-
Retirement benefits	21(a)	12,967	12,369	333	328
		407,778	454,684	220,333	290,328
CURRENT LIABILITIES					
Trade and other payables	22	469,788	350,775	11,298	26,243
Borrowings (unsecured)	20	387,504	413,207	234,000	192,000
Tax payable		14,752	11,468	-	-
		872,044	775,450	245,298	218,243
TOTAL LIABILITIES		1,279,822	1,230,134	465,631	508,571
TOTAL EQUITY AND LIABILITIES		3,306,267	3,089,347	1,176,324	1,213,505

The accompanying notes form an integral part of the financial statements.

INCOME STATEMENTS

for the financial year ended 30 June 2010

		Group		Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revenue					
Sales of goods and services		2,871,778	2,679,110	-	-
Dividend income		-	-	91,857	54,113
		2,871,778	2,679,110	91,857	54,113
Cost of sales		(2,411,886)	(2,337,744)	-	-
Gross profit		459,892	341,366	91,857	54,113
Distribution costs		(83,597)	(85,931)	-	-
Administration expenses		(85,734)	(89,730)	(4,897)	(4,138)
Other operating expenses		(87,658)	(122,855)	(33,175)	(21,423)
Other operating income		51,099	39,743	16,651	23,522
Operating profit		254,002	82,593	70,436	52,074
Interest income		3,212	4,449	265	1,473
Finance costs		(24,546)	(34,198)	(16,577)	(21,853)
Share of profit of associated companies		54,256	35,866	-	-
Profit before taxation	23	286,924	88,710	54,124	31,694
Taxation	24	6,632	(27,202)	(1,995)	(202)
Profit for the financial year		293,556	61,508	52,129	31,492
Attributable to:					
Equity holders of the Company		194,278	75,062	52,129	31,492
Minority interests		99,278	(13,554)	-	-
Profit for the financial year		293,556	61,508	52,129	31,492
Basic earnings per ordinary share (sen)	25	74.27	28.69		
Dividends per ordinary share - net (sen)	26	17.00	10.00		

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2010

Group	Attributable to equity holders of the Company									
	←					→				
	Share Capital	Share Premium*	Share Revaluation Reserve*	Exchange Equalisation Reserve*	Other Reserves*	Reserve For Own Shares*	Option Reserve*	Retained Profits	Treasury Shares	Minority Interests
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2009	140,573	586,926	-	(27,525)	(954)	(54,374)	1,068	686,398	(63,309)	590,410
Profit for the financial year	-	-	-	-	-	-	-	194,278	-	99,278
Foreign currency translation differences	-	-	-	(28,765)	-	-	-	-	-	(5,129)
Dividends (Note 26)	-	-	-	-	-	-	-	(44,467)	-	(44,803)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(9)	-
Transfer to capital redemption reserve	-	-	-	-	209	-	-	(209)	-	-
Transfer to capital reserves	-	-	-	-	900	-	-	(900)	-	-
Change in equity in a subsidiary company	-	-	-	-	-	-	-	-	-	(5)
Share-based payments	-	-	-	-	(1,613)	-	(626)	750	-	(1,657)
At 30 June 2010	140,573	586,926	-	(56,290)	(1,458)	(54,374)	442	835,850	(63,318)	638,094
										2,026,445

(Note 17)

(Note 19)

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 30 June 2010 (cont'd)

	Attributable to equity holders of the Company													
	Share Capital RM'000	Share Premium* RM'000	Share Revaluation Reserve* RM'000	Exchange		Others Reserves* RM'000	Reserve		Share Option Reserve* RM'000	Retained Profits RM'000	Treasury		Minority Interests RM'000	Total Equity RM'000
				Reserve* RM'000	Equalisation RM'000		Shares* RM'000	For Own RM'000			Shares RM'000	Total RM'000		
Group														
At 1 July 2008	140,573	586,926	948	(36,500)	(9,777)	(52,255)	1,788	644,216	(63,302)	1,212,617	635,445	1,848,062		
Profit for the financial year	-	-	-	-	-	-	-	75,062	-	75,062	(13,554)	61,508		
Foreign currency translation differences	-	-	-	8,975	-	-	-	-	-	8,975	4,548	13,523		
Dividends (Note 26)	-	-	-	-	-	-	-	(26,157)	-	(26,157)	(37,945)	(64,102)		
Purchase of treasury shares	-	-	-	-	-	-	-	-	(7)	(7)	-	(7)		
Purchase of Trust Shares	-	-	-	-	-	(2,119)	-	-	-	(2,119)	-	(2,119)		
Transfer to capital redemption reserve	-	-	-	-	7,974	-	-	(7,974)	-	-	-	-		
Transfer to capital reserves	-	-	-	-	293	-	-	(293)	-	-	-	-		
Transfer of revaluation reserve on disposal of a property	-	-	(948)	-	-	-	-	948	-	-	-	-		
Issue of shares to minority shareholder by a subsidiary company	-	-	-	-	-	-	-	-	-	-	82	82		
Change in equity in a subsidiary company	-	-	-	-	-	-	-	-	-	-	(5)	(5)		
Share-based payments	-	-	-	-	556	-	(720)	596	-	432	1,839	2,271		
At 30 June 2009	140,573	586,926	-	(27,525)	(954)	(54,374)	1,068	686,398	(63,309)	1,268,803	590,410	1,859,213		

(Note 17)

(Note 19)

for the financial year ended 30 June 2010 (cont'd)

* Non Distributable

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENTS

for the financial year ended 30 June 2010

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	286,924	88,710	54,124	31,694
Adjustments for:-				
Share of profit of associated companies	(54,256)	(35,866)	-	-
Amortisation of intangible assets				
- Computer software	244	107	-	-
- Development expenditure	1,455	1,757	-	-
Amortisation of prepaid lease payments	510	526	-	-
Depreciation of property, plant and equipment	234,684	261,084	-	-
Dividend income	(2,067)	(801)	(91,857)	(54,113)
Gain on disposal of property, plant and equipment	(1,882)	(9,977)	-	-
Property, plant and equipment written off	5,702	10,607	-	-
Impairment of property, plant and equipment	45,257	681	-	-
Retirement benefits	1,125	1,003	6	3
Gain on disposal of prepaid lease payments	(9,274)	-	-	-
Unrealised loss/(gain) on foreign exchange	12,072	(3,526)	-	-
Interest income	(3,212)	(4,449)	(265)	(1,473)
Finance costs	24,546	34,198	16,577	21,853
Gain on liquidation of subsidiary companies	(39)	(428)	-	-
Impairment of value in				
- Investment in subsidiary companies	36,000	-	29,353	-
- Other investment	-	3	-	-
Share-based payments	(3,145)	2,271	-	-
Loss on disposal of other investments	-	941	-	470
Gain on redemption of redeemable preference shares in an associated company	-	-	-	(23,499)
Other non-cash items	135	1,009	-	-
Operating profit/(loss) before working capital changes	574,779	347,850	7,938	(25,065)
Changes in working capital:				
Inventories	(22,053)	36,794	-	-
Trade and other receivables	(146,799)	92,602	49,324	2,970
Trade and other payables	169,429	(64,911)	(14,945)	(16,984)
Cash generated from/(used in) operations	575,356	412,335	42,317	(39,079)
Taxation (paid)/refund	(25,671)	(22,939)	7,444	12,776
Interest income received	3,212	4,449	265	1,473
Finance costs paid	(24,546)	(34,198)	(16,577)	(21,853)
Dividends received from				
- Subsidiary companies	-	-	48,302	45,405
- Associated companies	38,461	2,854	38,461	2,854
- Other investments	2,067	801	305	58
Retirement benefits paid	(527)	(346)	(1)	(10)
Net cash generated from operating activities	568,352	362,956	120,516	1,624

CASH FLOW STATEMENTS

for the financial year ended 30 June 2010 (cont'd)

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Issue of shares by a subsidiary company to minority shareholder	-	82	-	-
Cash distribution from liquidation of subsidiary companies	-	-	-	24,000
Addition of development expenditure	(2,027)	(1,039)	-	-
Addition of computer software	(260)	(1,073)	-	-
Purchase of property, plant and equipment	(294,315)	(177,304)	-	-
Proceeds from disposal of property, plant and equipment	2,414	18,779	-	-
Proceeds from disposal of other investments	-	354	-	177
Proceeds from redemption of redeemable preference shares in an associated company	-	49,479	-	49,479
Proceeds from disposal of prepaid lease payments	10,017	-	-	-
Additional of investment in subsidiary companies	-	-	(46,000)	(119)
Net cash (used in)/generated from investing activities	(284,171)	(110,722)	(46,000)	73,537
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to				
- Equity holder of the Company	(44,467)	(26,157)	(46,361)	(27,272)
- Minority shareholders of subsidiary companies	(44,803)	(37,945)	-	-
Repayment of redeemable bonds	-	(250,000)	-	(250,000)
Repayment of borrowings	(598,517)	(1,288,819)	(283,000)	(651,500)
Drawdown of borrowings	574,385	1,344,337	255,000	813,500
Purchase of treasury shares	(21)	(19)	(9)	(7)
Purchase of Trust Shares	-	(2,119)	-	-
Net cash used in financing activities	(113,423)	(260,722)	(74,370)	(115,279)
NET CHANGE IN CASH AND CASH EQUIVALENTS	170,758	(8,488)	146	(40,118)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	261,008	267,975	16,666	56,784
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CONSOLIDATION OF CASH AND CASH EQUIVALENTS	(2,606)	1,521	-	-
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	429,160	261,008	16,812	16,666
CASH AND CASH EQUIVALENTS COMPRISE:-				
Deposits with licensed financial institutions	288,374	179,801	9,572	16,503
Cash and bank balances	130,447	81,207	7,240	163
Unquoted fund	10,339	-	-	-
	429,160	261,008	16,812	16,666

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Hong Leong Industries Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is as follows:-

Level 9, Wisma Hong Leong
18, Jalan Perak
50450 Kuala Lumpur

The ultimate holding company of the Company is Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia.

The consolidated financial statements as at and for the financial year ended 30 June 2010 comprise the Company, its subsidiaries and special purpose entities (Note 2.1(b)(ii)) (together referred to as the Group). The financial statements of the Company for the financial year ended 30 June 2010 do not include other entities.

The principal activity of the Company is investment holding, whilst the principal activities of the subsidiary companies and associated companies are as stated in Note 3 to the financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 23 August 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Summary of significant accounting policies

(a) Basis of preparation

The financial statements of the Group and of the Company are prepared under the historical cost basis.

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 6, 7 and 9 for measurement of the recoverable amounts of cash-generating units.

The financial statements are presented in Ringgit Malaysia (RM), which is the functional currency of the Group and of the Company and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are enterprises controlled by the Company. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(b) Basis of consolidation (cont'd)

(i) Subsidiaries (cont'd)

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Subsidiaries are consolidated using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of acquisition to fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Any excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition represents negative goodwill which is immediately recognised in the income statement.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Minority interests represent the minorities' share of the fair value of the subsidiaries' identifiable assets, liabilities and contingent liabilities at the date of acquisition and the minorities' share of changes in the subsidiaries' equity since then.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Special Purpose Entities

Special Purpose Entities ("SPE") are entities defined in IC Interpretation 112, Consolidation - Special Purpose Entities, which may constitute a corporation, trust, partnership or unincorporated entity created to accomplish a narrow and well defined objective with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Accordingly the ESOS Trust set up as mentioned in Note 2.1 (p) (iv) is consolidated in the Consolidated Financial Statement of the Group.

(iii) Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies.

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Investments in associates are stated in the Company's balance sheet at cost less impairment losses unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(c) Property, plant and equipment

Property, plant and equipment are stated at cost/valuation less depreciation and impairment losses.

Certain freehold and leasehold properties and plant and equipment of certain subsidiary companies were revalued by the Directors based upon independent professional valuations determined on the open market value basis as disclosed in Note 4 to the financial statements.

It is the policy of the Group and of the Company to state its property, plant and equipment at cost. Notwithstanding that, certain freehold land and long term leasehold buildings of the Group were revalued in 1982 to 1990 by the Directors based on professional valuations using the open market value basis. As allowed by FRS 116 Property, Plant and Equipment, the revaluation was not intended to effect a change in the accounting policy to one of revaluation of properties. Hence, the valuations of these properties have not been updated and they continue to be stated at their existing carrying amounts less accumulated depreciation.

Surplus arising from revaluation is dealt with on the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement. Upon the disposal of revalued properties, the attributable revaluation reserve is transferred to retained earnings.

Additions to land and buildings and plant and equipment subsequent to the latest valuation are stated at cost in the financial statements.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller after making proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of such an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:-

Buildings	2% - 5%
Building improvements	10%
Plant and equipment and motor vehicles	5% - 50%

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(c) Property, plant and equipment (cont'd)

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the balance sheet date.

(d) Prepaid lease payments

A lease is recognised as a finance lease if it transfers substantially to the Company all the risk and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and the rewards are classified as operating leases, other than a property held under operating leases which meets the definition of an investment property is classified as an investment property on a property by property basis.

The minimum lease payments including up-front payments made for leasehold land and building, are allocated between land and buildings elements in proportion to the relative fair values of leasehold interest in the land element and the buildings element at the inception of the lease.

Leasehold land that normally has an indefinite economic life and if title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The up-front payment made for the leasehold land represents prepaid lease payments that are amortised on a straight line basis over the lease term. Where the leasehold land has been previously revalued, the unamortised revalued amount of leasehold land is retained as surrogate carrying amount of the prepaid lease payments.

For leases of land and buildings in which the amount that would initially be recognised for land element is immaterial, the land and buildings maybe treated as a single unit for the purpose of lease classification and is accordingly classified as a finance or operating lease. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost which is allocated to cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate it might be impaired. Impairment losses are recognised in the income statement when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds the recoverable amount.

Excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is immediately recognised in the income statement.

(ii) Development expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed to the income statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(e) Intangible assets (cont'd)

(ii) Development expenditure (cont'd)

Expenditure on development activities, for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses, and is amortised over a period of ten years on a straight line basis. Other development expenditure is expensed to the income statement as incurred.

(iii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories are mainly determined on the weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes raw materials and an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts. Known bad debts are written off and specific allowance is made for any debts considered to be doubtful of collection. Receivables are not held for the purposes of trading.

(h) Investments in equity securities

Investments in equity securities are recognised initially at fair value plus attributable transaction costs.

Subsequent to initial recognition:

- Investments in non-current equity securities other than investments in subsidiaries and associates are stated at cost less allowance for diminution in value; and
- All current investments are carried at the lower of cost and market value, determined on an aggregate investment basis by category of investments.

Where in the opinion of the Directors, there is a decline other than temporary in the value of non-current equity securities other than investment in subsidiaries and associates, the allowance for diminution in value is recognised as an expense in the financial year in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(h) Investments in equity securities (cont'd)

All investments in equity securities are accounted for using settlement date accounting. Settlement date accounting refers to:

- (i) the recognition of an asset on the day it is received by the entity; and
- (ii) the derecognition on an asset and recognition of any gain or loss on disposal on the date it is delivered.

(i) Assets held for sale

Non-current assets (or disposal group comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(k) Impairment

The carrying amounts of the Group's assets other than inventories and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statements. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(l) Share capital

Incremental costs directly attributable to issue of shares and share options classified as equity are recognised as a deduction from equity.

When share capital recognised as equity is repurchase, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

(m) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowings using the effective interest method.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(o) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(p) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the income statement in the period in which the associated services are rendered by employees.

(ii) Defined contribution plans

The Company and its subsidiaries made contributions to their respective countries' statutory pension scheme as required by the law. Such contributions are recognised as an expense in the income statement as and when incurred.

(iii) Defined benefit plan

The Group operates an unfunded defined benefit scheme for the eligible employees. The present value of the defined benefit obligation as required by FRS 119²⁰⁰⁴, Employee Benefits has not been used in deriving at the provision, as the amount involved is not material to the Group and the Company. Accordingly, no further disclosure as required by the standard is made.

(iv) Share-based payments

The Group operates equity-settled, share based compensation plans for the employees of the Group under the Hong Leong Industries Berhad ("HLI")'s Executive Share Option Scheme and Malaysian Pacific Industries Berhad ("MPI")'s Executive Share Option Scheme (collectively referred to as "ESOs") respectively.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(p) Employee benefits (cont'd)

(iv) Share-based payments (cont'd)

The fair value of the share options granted to employees is recognised as an employment cost with a corresponding increase in the share option reserve over the vesting period. When the options are exercised, the amount from the share option reserve is transferred to share premium. When the share options not exercised are expired, the amount from the share option reserve is transferred to retained earnings.

The fair value of the share options is measured using Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

In connection with the ESOSs, trusts have been set up and are administered by an appointed trustee ("ESOS Trust"). The trustee will be entitled from time to time, to accept advances from the Group, upon such terms and conditions as the Group and the trustee may agree to purchase the ordinary shares of HLI and MPI from the open market for the ESOS Trusts ("Trust Shares").

The ESOS Trusts for HLI and MPI are consolidated into the Group's consolidated financial statements as a deduction from equity and classified as reserves for own shares and other reserves respectively. Dividends received by the ESOS Trust are eliminated against the dividend expense of the Company.

(q) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to functional currency at the exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(ii) Financial statements of foreign operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations in functional currencies other than RM including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the balance sheet date, except for goodwill and fair value adjustments arising from business combinations before 1 July 2006 which are reported using the exchange rates at the dates of the acquisition. The income and expenses of foreign operations are translated to RM at average exchange rates for the year. Differences on exchange arising from the translation of the opening net investment in subsidiaries, and from the translation of the income and expenses of those companies at the average rate, are taken to reserves.

On disposal, accumulated translation differences are recognised in the consolidated income statements as part of the gain or loss on sale.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(q) Foreign currency (cont'd)

(iii) Net investment in foreign operations

Exchange differences arising from monetary items that in substance form part of the Company's net investment in foreign operations, are recognised in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements. Deferred exchange differences are released to the income statement upon disposal of the investment.

(r) Derivative financial instruments

The Group uses derivative financial instruments, including forward foreign exchange contracts, to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities.

Derivative financial instruments (used for hedging purposes) are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or net positions upon realisation.

Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and marked to market at balance sheet date. Any profit or loss is recognised in the income statement upon realisation.

(s) Revenue

(i) Goods sold and services rendered

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is stated net of discount and returns in the income statement.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to service performed to date as a percentage of services to be performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iii) Interest and rental income

Interest and rental income are recognised in the income statement on accrual basis.

(t) Borrowings costs

All borrowings costs are recognised in the income statement using the effective interest method, in the period in which they are incurred except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(f) Borrowings costs (cont'd)

The capitalisation of borrowings costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in the progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(u) Bond issue expenses

Expenditure attributable to the issue of Redeemable Bonds and Convertible Bonds due 2009 (collectively referred to as "Bonds") are amortised over the tenure of the Bonds.

(v) Lease assets

Leases in which the Group and the Company assume substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses.

Other leases are operating leases and leased assets are not recognised on the Group's balance sheet.

(w) Taxation

Taxation in the income statement comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to item recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unutilised reinvestment allowance and investment tax allowance are recognised as a reduction of tax expense as and when they are utilised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Summary of significant accounting policies (cont'd)

(x) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(y) Dividends

Dividends on ordinary shares are accounted for in shareholders' equity as an appropriation of retained profits in the period in which they are declared.

(z) Operating segments

In the previous years, a segment was a distinguishable component of the Group that was engaged either in providing products or services (business segment), or in providing or services within a particular economic environment (geographical segment) which was subject to risks and rewards that were different from those other segments.

Following the adoption of FRS 8, "Operating Segments", an operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Board of Directors of the Group, to make decisions about resources to be allocated to segment and assess its performance, and for which discrete financial information is available.

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs

2.2.1 FRS Issued and Effective

FRS 8 Operating Segment

FRS 8, Operating Segment replaces FRS 114²⁰⁰⁴, Segmental Reporting where segment information is presented on a similar basis to that used for internal reporting purposes.

On 1 July 2009, the Group has adopted FRS 8. The adoption does not have any financial impact on the financial statements of the Group except for the presentation of operating segments as disclosed in Note 27.

2.2.2 FRSs, Amendment to FRSs and Interpretations Issued but Not Yet Effective

The Group and the Company have not applied the following FRSs, Amendments to FRSs and Interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Group and the Company:

FRSs, Amendments to FRSs and Interpretations effective for annual periods beginning on or after 1 January 2010

- FRS 4, *Insurance Contracts*
- FRS 7, *Financial Instruments: Disclosures*
- FRS 101, *Presentation of Financial Statements (revised)*
- FRS 123, *Borrowing Costs (revised)*
- FRS 139, *Financial Instruments: Recognition and Measurement*
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd)

2.2.2 FRSs, Amendment to FRSs and Interpretations Issued but Not Yet Effective (cont'd)

FRSs, Amendments to FRSs and Interpretations effective for annual periods beginning on or after 1 January 2010 (cont'd)

- Amendments to FRS 2, *Share-based Payment: Vesting Conditions and Cancellations*
- Amendments to FRS 7, *Financial Instruments: Disclosures*
- Amendments to FRS 101, *Presentation of Financial Statements*
 - *Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to FRS 127, *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to FRS 132, *Financial Instruments: Presentation*
 - *Puttable Financial Instruments and Obligations Arising on Liquidation*
 - *Separation of Compound Instruments*
- Amendments to FRS 139, *Financial Instruments: Recognition and Measurement*
 - *Reclassification of Financial Assets*
 - *Collective Assessment of Impairment for Banking Institutions*
- Improvements to FRSs (2009)
- IC Interpretation 9, *Reassessment of Embedded Derivatives*
- IC Interpretation 10, *Interim Financial Reporting and Impairment*
- IC Interpretation 11, *FRS 2 - Group and Treasury Share Transactions*
- IC Interpretation 13, *Customer Loyalty Programmes*
- IC Interpretation 14, *FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

FRSs, Amendments to FRSs and Interpretations effective for annual periods beginning on or after 1 March 2010

- Amendments to FRS 132, *Financial Instruments: Presentation - Classification of Rights Issues*

FRSs, Amendments to FRSs and Interpretations effective for annual periods beginning on or after 1 July 2010

- FRS 1, *First-time Adoption of Financial Reporting Standards (revised)*
- FRS 3, *Business Combinations (revised)*
- FRS 127, *Consolidated and Separate Financial Statements (revised)*
- Amendments to FRS 2, *Share-based Payment*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 15, *Agreements for the Construction of Real Estate*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distribution of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

FRSs, Amendments to FRSs and Interpretations effective for annual periods beginning on or after 1 January 2011

- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
 - *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
 - *Additional Exemptions for First-time Adopters*
- Amendments to FRS 2, *Share-based Payment: Group Cash-settled Share based Payment Transactions*
- Amendments to FRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
- IC Interpretation 4, *Determining whether an Arrangement contains Lease*
- IC Interpretation 18, *Transfers of Assets from Customers*

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Changes in accounting policies and effects arising from adoption of new and revised FRSs (cont'd)

2.2.2 FRSs, Amendment to FRSs and Interpretations Issued but Not Yet Effective (cont'd)

The Group and the Company plan to apply the abovementioned FRS, Amendments to FRSs and Interpretations:

- from the annual period beginning 1 July 2010 for those FRSs, Amendments to FRSs or Interpretations that will be effective for annual periods beginning on or after 1 January 2010, 1 March 2010 and 1 July 2010, except for FRS 4 and IC Interpretations 12, 13, 14 and 15 which are not applicable to the Group and the Company; and
- from the annual period beginning 1 July 2011 for those FRSs, Amendments to FRSs or Interpretations that will be effective for annual periods beginning on or after 1 January 2011.

The financial impact on the financial statement of the Group and the Company 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.

Improvement to FRSs (2009)

Improvements to FRSs (2009) contain various amendments that result in accounting changes for presentation, recognition or measurement and disclosure purposes. Amendment that has material impact is:

- FRS 117, Leases**

The amendment clarifies on the classification of lease of land and requires entities with existing leases of land and buildings to reassess the classification of land as finance or operating lease. Leasehold land which in substance is a finance lease will be reclassified to property, plant and equipment. The adoption of these amendments will result in a change in accounting policy which will be applied retrospectively in accordance with the transitional provisions.

The first adoption of the other FRSs, Amendments to FRSs and Interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

3. COMPANIES IN THE GROUP

The principal activities of the companies in the Group, their country of incorporation and the effective interest of Hong Leong Industries Berhad are shown below:-

Name of Company	Country of Incorporation	Effective Interest		Principal Activities
		2010 %	2009 %	
Subsidiary Companies				
Guocera Holdings Sdn Bhd	Malaysia	100.0	100.0	Investment holding.
•Guocera Tile Industries Sdn Bhd	Malaysia	100.0	100.0	Manufacture of ceramic tiles.
•Guocera Tile Industries (Meru) Sdn Bhd	Malaysia	70.0	70.0	Manufacture of ceramic tiles.
•Guocera Tile Industries (Labuan) Sdn Bhd	Malaysia	70.0	70.0	Ceased operation.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

3. COMPANIES IN THE GROUP (cont'd)

Name of Company	Country of Incorporation	Effective Interest		Principal Activities
		2010 %	2009 %	
Subsidiary Companies (cont'd)				
• Guocera Marketing Sdn Bhd	Malaysia	100.0	100.0	General trading and investment holding.
•*Guocera Marketing Singapore Pte Ltd	Singapore	100.0	100.0	General trading.
• Ceramic Research Company Sdn Bhd	Malaysia	100.0	100.0	Research and development of ceramic tiles and related products.
• Guocera Marketing (International) Sdn Bhd	Malaysia	100.0	100.0	Procurement and sale of raw materials, parts and components, and finished products of tiles for the local and export markets.
• Skylight Services Limited	Malaysia	-	100.0	Wound up.
Hong Leong Marketing Co Berhad	Malaysia	100.0	100.0	Distribution of building materials.
Hong Leong Yamaha Motor Sdn Bhd	Malaysia	69.4	69.4	Distribution and manufacture of motorcycles and other components, assembly of motorcycles and investment holding.
Stableview Sdn Bhd	Malaysia	100.0	100.0	Temporary ceased operation.
Prester Sdn Bhd (formerly known as MZ Motorrad Group Sdn Bhd)	Malaysia	100.0	100.0	Temporary ceased operation.
•MZ Motorrad- und Zweiradwerk GmbH	Germany	100.0	100.0	Ceased operation.
*MZ Holdings Limited	Hong Kong	100.0	100.0	Dormant.
•MZ Motorrad Group Limited	Bermuda	100.0	100.0	Investment holding.
• MZ Engineering GmbH	Germany	100.0	100.0	In member's voluntary liquidation.
• Rotom Company Limited	Thailand	-	100.0	Wound up.
*Malaysian Pacific Industries Berhad	Malaysia	61.4	61.4	Investment holding.
•*Carsem (M) Sdn Bhd	Malaysia	43.0	43.0	Manufacturing and testing of semiconductor devices and electronic components.
•*Recams Sdn Bhd (formerly known as Carsem Semiconductor Sdn Bhd)	Malaysia	43.0	43.0	Dormant.
••Carsem Holdings Limited	Bermuda	61.4	61.4	Investment holding.
•*Carsem Semiconductor (Suzhou) Co., Ltd	The People's Republic of China	61.4	61.4	Manufacturing and testing of semiconductor devices and electronic components.
•*Carter Realty Sdn Bhd	Malaysia	43.0	43.0	Investment holding.
••Carsem Inc.	The United States of America ("USA")	43.0	43.0	Semiconductor devices' and electronic components' marketing agent.
•*Dynacraft Industries Sdn Bhd	Malaysia	61.4	61.4	Manufacturing and sale of leadframes.
•*Carsem Holdings (HK) Limited	Hong Kong	61.4	61.4	Intended to be an investment holding company.
• Advance Dyna, Inc.	USA	-	61.4	Wound up.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

3. COMPANIES IN THE GROUP (cont'd)

Name of Company	Country of Incorporation	Effective Interest		Principal Activities
		2010 %	2009 %	
Subsidiary Companies (cont'd)				
Hong Leong Marketing (EM) Sdn Bhd (formerly known as Guolene Plastic Products Sdn Bhd)	Malaysia	100.0	100.0	Investment holding.
Maxider Sdn Bhd	Malaysia	100.0	100.0	Investment holding.
Megah Court Condominium Development Sdn Bhd	Malaysia	100.0	100.0	Property management.
Taman Terang Sdn Bhd	Malaysia	100.0	100.0	Investment holding.
•Kilatas Sdn Bhd	Malaysia	100.0	100.0	In member's voluntary liquidation.
HLI-HUME Management Co Sdn Bhd	Malaysia	51.0	51.0	Provision of management services.
*HLI Trading Limited	Hong Kong	100.0	100.0	Investment trading.
♦HLI Overseas Limited	Jersey, Channel Islands	100.0	100.0	Dormant.
RZA Logistics Sdn Bhd	Malaysia	59.1	59.1	Investment holding.
Guotrade (Malaysia) Sdn Bhd	Malaysia	100.0	100.0	In member's voluntary liquidation.
Varinet Sdn Bhd	Malaysia	60.0	60.0	In members' voluntary liquidation.
Hong Leong Maruken Sdn Bhd	Malaysia	70.0	70.0	In members' voluntary liquidation.
Associated Companies				
*Hicom-Yamaha Manufacturing Malaysia Sdn Bhd	Malaysia	30.0	30.0	Manufacture and assembly of motorcycle engines and parts.
HL Yamaha Motor Research Centre Sdn Bhd	Malaysia	34.0	34.0	Provision of research and development services.
*Yamaha Motor Vietnam Co., Ltd	Vietnam	24.0	24.0	Procure and assemble motorcycles, motorcyle spare parts and components and provision of maintenance and repair service for motorcycles.
*Malaysian Newsprint Industries Sdn Bhd	Malaysia	33.7	33.7	Manufacture and sale of newsprint and related paper products.
*Laras Perkasa Sdn Bhd	Malaysia	30.0	30.0	Dormant.

The financial year end of the associated companies are co-terminous with the Company except for the following:-

Name of Company	Financial Year End
+ Hicom-Yamaha Manufacturing Malaysia Sdn Bhd	31 March
+ Yamaha Motor Vietnam Co., Ltd	31 December

Notes:

- Sub-subsidiary companies.
- * The financial statements of these subsidiary and associated companies are not audited by the auditors of the Company.
- ♦ These sub-subsidiary companies are consolidated based on unaudited financial statements. These financial statements are not required to be audited in their respective countries of incorporation.
- + Group's share of profit is based on the latest audited financial statements and latest management financial statements available.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

4. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Land RM'000	Freehold Buildings RM'000	Leasehold Buildings RM'000	Plant & Equipment & Motor Vehicles RM'000	Capital Work-In- Progress RM'000	Total RM'000
Net book value						
At 1 July 2009	42,820	102,536	211,266	922,567	21,053	1,300,242
Translation differences	(34)	(719)	(1,710)	(13,124)	-	(15,587)
Additions	-	673	1,806	188,989	102,847	294,315
Reclassification	-	41,129	4,559	38,077	(83,765)	-
Disposals	-	-	-	(532)	-	(532)
Write off	-	(62)	-	(5,115)	(525)	(5,702)
Impairment	-	-	-	(45,257)	-	(45,257)
Depreciation	-	(3,371)	(16,300)	(215,013)	-	(234,684)
Transfer to assets held for sale	(4,545)	(4,549)	-	-	-	(9,094)
At 30 June 2010	38,241	135,637	199,621	870,592	39,610	1,283,701
At 30 June 2010						
Cost	38,241	175,667	341,681	3,328,981	39,610	3,924,180
Valuation	-	-	4,168	-	-	4,168
Accumulated depreciation and impairment	-	(40,030)	(146,228)	(2,458,389)	-	(2,644,647)
Net book value	38,241	135,637	199,621	870,592	39,610	1,283,701
At 30 June 2009						
Cost	42,820	149,000	337,581	3,289,390	21,053	3,839,844
Valuation	-	-	4,168	-	-	4,168
Accumulated depreciation and impairment	-	(46,464)	(130,483)	(2,366,823)	-	(2,543,770)
Net book value	42,820	102,536	211,266	922,567	21,053	1,300,242

Certain buildings of a sub-subsidiary company is situated on land held under operating leases (Note 28).

The carrying amounts of each class of property, plant and equipment that would have been included in the financial statements had the revalued assets been carried at cost less accumulated depreciation are not disclosed due to absence of historical records.

Details of independent professional valuations of property, plant and equipment of the Group are as follows:-

Year of valuation	Description of property	2010 RM'000	2009 RM'000
1983	Long leasehold buildings	4,168	4,168

The valuation was made on the open market value basis.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

5. PREPAID LEASE PAYMENTS

	Group	
	2010 RM'000	2009 RM'000
Net book value		
At 1 July	36,977	37,294
Translation differences	(185)	209
Disposal	(743)	-
Amortisation charges	(510)	(526)
Transfer to assets held for sale	(248)	-
At 30 June	35,291	36,977
At 30 June		
Cost	37,245	37,885
* Valuation	8,246	9,284
Accumulated amortisation	(10,200)	(10,192)
Net book value	35,291	36,977
Analysed by:-		
Unexpired lease period more than 50 years	29,933	25,281
Unexpired lease period less than 50 years	5,358	11,696

During the financial year ended 30 June 2010, the lease period for two parcels of land with a net book value of RM3,930,000 were extended by another 60 years.

* The leasehold land of the Group was revalued by the Directors in 1983 based on professional appraisals by an independent valuer on the open market value basis. As allowed by FRS 117, Leases, issued by the Malaysian Accounting Standards Board, the Group has availed itself the transitional provisions whereby these assets have continued to be stated on the basis of the 1983 valuation.

6. INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	2010 RM'000	2009 RM'000
At cost:		
- Malaysian quoted shares	601,077	601,077
- Unquoted shares	618,661	572,661
	1,219,738	1,173,738
Less: Impairment in value		
- Unquoted shares	(374,654)	(345,301)
	845,084	828,437
Market value:		
- Malaysian quoted shares	710,692	574,993

Impairment losses are recognised based on the excess of carrying amount over its recoverable amounts of investment, which is determined based on either the net assets value of the subsidiary companies or the recoverable amount of the cash generating amount based on value in use and the fair value less costs to sell whichever is higher.

The subsidiary companies and their principal activities are disclosed in Note 3 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

7. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At cost/written down value:				
- Unquoted shares	267,300	267,300	266,892	266,892
- Unquoted redeemable preference shares	36,429	36,429	70,140	70,140
	303,729	303,729	337,032	337,032
Share of capital reserves	(24,512)	(4,580)	-	-
Share of profits	103,729	87,935	-	-
Less: Impairment in value	-	-	(71,959)	(71,959)
	382,946	387,084	265,073	265,073

Investments in associated companies are represented by:-

	Group	
	2010 RM'000	2009 RM'000
Share of net assets other than goodwill of the associated companies	382,665	386,803
Premium on acquisition	281	281
Carrying value	382,946	387,084

The summarised financial information of the associated companies are as follows:-

	Group	
	2010 RM'000	2009 RM'000
Assets and liabilities		
Total assets	2,199,827	2,233,097
Total liabilities	1,015,749	1,026,648
Results		
Revenue	2,488,429	2,616,771
Profit for the financial year	217,743	122,541

Impairment losses are recognised based on the excess of carrying amount over its recoverable amount, which is determined based on the net assets value of the associated companies.

The associated companies and their principal activities are disclosed in Note 3 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

8. OTHER INVESTMENTS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At cost:				
Unquoted shares	56	56	10	10
Shares quoted in Malaysia	27	-	-	-
Less: Impairment in value	(23)	-	-	-
	4	-	-	-
	60	56	10	10
Market value				
Shares quoted in Malaysia	7	-	-	-

9. INTANGIBLE ASSETS

Group	Goodwill RM'000	Development expenditure RM'000	Computer Software RM'000	Total RM'000
Net book value				
At 1 July 2008	479,289	3,188	-	482,477
Change in equity in a subsidiary company	7	-	-	7
Additions	-	1,039	1,073	2,112
Amortisation	-	(1,757)	(107)	(1,864)
At 30 June 2009	479,296	2,470	966	482,732
Change in equity in a subsidiary company	8	-	-	8
Additions	-	2,027	260	2,287
Impairment	(36,000)	-	-	(36,000)
Amortisation	-	(1,455)	(244)	(1,699)
At 30 June 2010	443,304	3,042	982	447,328

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the cash generating units was based on its value in use. The recoverable amount of the unit was determined to be higher than its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

9. INTANGIBLE ASSETS (cont'd)

Impairment testing for cash-generating units containing goodwill (cont'd)

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the recent financial projections approved by the management. These projections cover a period of ten years, using projected growth rate of between 5% to 10% for the first 5 years and no further growth between 6 to 10 years and discounted by the Group's weighted average cost of capital. The cash flows are extrapolated in perpetuity due to the long term perspective of these businesses within the Group.

The gross margins used in the projections were based on past experience and expectations of market developments.

10. OTHER ASSETS

The other assets of the Company comprise advances given to the trustee to purchase the Trust Shares as disclosed in Note 2.1 (p)(iv). The advances shall be repaid by the trustee upon the sale of all the Trust Shares.

11. DEFERRED TAXATION

The amounts of deferred tax assets and liabilities are as follows:-

	2010 RM'000	Group 2009 RM'000
Deferred tax assets		
At 1 Jul	877	1,127
Transfer to income statement	(877)	(250)
At 30 June	-	877
Deferred tax liabilities		
At 1 July	65,198	61,783
Transfer to income statements	(42,155)	3,415
At 30 June	23,043	65,198

Deferred tax assets and liabilities above are offset where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

Movements in deductible/(taxable) temporary differences during the financial year are as follows:-

	At 1-7-2009 RM'000	Recognised in income statements RM'000	At 30-6-2010 RM'000
Group			
Accelerated capital allowances	(78,977)	38,577	(40,400)
Allowances	14,645	2,712	17,357
Unabsorbed capital allowances	11	(11)	-
	(64,321)	41,278	(23,043)

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

11. DEFERRED TAXATION (cont'd)

The Group and the Company have potential deferred tax assets not recognised in the financial statements as disclosed below:-

	2010		2009	
	Temporary differences RM'000	Tax effect RM'000	Temporary differences RM'000	Tax effect RM'000
Group				
Accelerated capital allowances	(944)	(236)	(11,752)	(2,938)
Allowances	13,920	3,480	9,336	2,334
Unabsorbed capital allowances	36,860	9,215	164,400	41,100
Unutilised tax losses	54,300	13,575	60,620	15,155
	104,136	26,034	222,604	55,651
Company				
Unabsorbed capital allowances	1,553	388	1,553	388
Unutilised tax losses	9,361	2,340	9,361	2,340
	10,914	2,728	10,914	2,728

The accelerated capital allowances, allowances, unabsorbed capital allowances and unutilised tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company or subsidiary companies can utilise the benefits.

12. INVENTORIES

	Group	
	2010 RM'000	2009 RM'000
Raw materials and consumables	90,487	83,375
Work-in-progress	19,133	14,788
Finished goods	80,605	79,073
	190,225	177,236

Inventories amounting to RM2,411,886,000 (2009: RM2,337,744,000) are recognised as cost of sales.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade receivables	474,896	398,954	-	-
Less: Allowance for doubtful debts	(17,462)	(17,477)	-	-
	457,434	381,477	-	-
Amounts due from:				
- Subsidiary companies	-	-	448	48,201
- Related companies	35	83	-	-
Other receivables, deposits and prepayments	59,216	44,423	610	627
	516,685	425,983	1,058	48,828

Group

Included in trade receivables are amounts due from related companies of RM3,607,000 (2009: RM1,999,000).

Amounts due from related companies are unsecured, interest free and have no fixed terms of repayment.

Trade receivables amounting to RM225,662,000 (2009: RM168,607,000), RM8,850,000 (2009: RM6,185,000) and RM6,103,000 (2009: RM5,145,000) are denominated in US Dollar, Euro and SGD respectively.

Company

Amounts due from subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

14. SHORT TERM INVESTMENTS

	Group	
	2010 RM'000	2009 RM'000
At cost:		
Loan stock quoted in Malaysia	-	27
Less: Impairment in value	-	(23)
	-	4
Market value	-	4

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

15. ASSETS HELD FOR SALE

	2010 RM'000	Group 2009 RM'000
Property, plant and equipment	9,094	-
Prepaid lease payments	248	-
	9,342	-

Assets held for sale comprise the following:-

	2010 RM'000	Group 2009 RM'000
Freehold land and building		
Cost	18,128	-
Accumulated depreciation	(9,034)	-
	9,094	-
Prepaid lease payments - short term leasehold land		
Cost	109	-
Valuation	265	-
Accumulated amortisation	(126)	-
	248	-

Disposals of the above assets are expected to be completed within twelve months from the balance sheet date.

16. CASH AND CASH EQUIVALENTS

	2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Deposits with licensed financial institutions	288,374	179,801	9,572	16,503
Cash and bank balances	130,447	81,207	7,240	163
Unquoted fund	10,339	-	-	-
	429,160	261,008	16,812	16,666

Included in the cash and cash equivalents are the following balances with related companies arising from normal business transactions:-

	2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Deposits with licensed financial institutions	14,245	12,362	-	-
Cash and bank balances	7,696	9,537	33	116
Unquoted fund	10,339	-	-	-

Cash and bank balances of the Group amounting to RM46,179,000 (2009: RM9,346,000) and RM29,761,000 (2009: RM17,530,000) are denominated in US Dollar and Renminbi respectively.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

17. SHARE CAPITAL

	Group and Company			
	2010		2009	
	No. of Shares '000	RM'000	No. of Shares '000	RM'000
Ordinary shares of RM0.50 each				
Authorised:-				
At 1 July/30 June	600,000	300,000	600,000	300,000
Issued and fully paid:-				
At 1 July/30 June	281,145	140,573	281,145	140,573

The number of ordinary shares issued after deducting treasury shares of 8,432,500 (2009: 8,430,500) ordinary shares held at the end of the financial year was 272,713,367 (2009: 272,715,367) ordinary shares of RM0.50 each.

18. RESERVES

		Group		Company	
		2010	2009	2010	2009
	Note	RM'000	RM'000	RM'000	RM'000
Reserves consist of:-					
Share premium		586,926	586,926	586,926	586,926
Exchange equalisation reserve		(56,290)	(27,525)	-	-
Other reserves	a	(1,458)	(954)	3,943	3,943
Reserve for own shares	b	(54,374)	(54,374)	-	-
Share option reserve	c	442	1,068	-	-
Retained profits		835,850	686,398	42,569	36,801
		1,311,096	1,191,539	633,438	627,670

Note a

Other reserves of the Group represent the Group's interest in the subsidiary and associated companies' capital redemption reserve, reserve for own shares and share option reserve; and gains on disposal of investments in the previous financial years.

Other reserves of the Company represent gains on disposal of investments in the previous financial years.

Note b

Reserve for own shares represents Trust Shares purchased by the ESOS Trust as disclosed in Note 2.1(p)(iv).

No Trust Shares were purchased during the financial year. As at 30 June 2010, the total number of Trust Shares purchased by the trustee was 11,139,800 ordinary shares of RM0.50 each.

Note c

Share option reserve represents fair value of the share options granted to employees as disclosed in Note 2.1(p)(iv).

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

19. TREASURY SHARES - AT COST

	Group and Company			
	2010		2009	
	No. of Shares '000	RM'000	No. of Shares '000	RM'000
Ordinary shares of RM0.50 each				
At 1 July	8,430	63,309	8,428	63,302
Shares bought back	2	9	2	7
At 30 June	8,432	63,318	8,430	63,309

During the financial year, the Company repurchased 2,000 ordinary shares of its issued share capital from the open market. The average price for the shares bought back was RM4.35 per ordinary share. The share buy back transactions were financed by internally generated fund. As at 30 June 2010, the total number of shares bought back was 8,432,500 ordinary shares of RM0.50 each which are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965. The rights attached to the treasury shares as to voting, dividends and participation in other distribution and otherwise are suspended.

20. BORROWINGS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Non-current (unsecured)				
Medium term notes	50,000	100,000	50,000	100,000
Bank term loans	321,768	277,117	170,000	190,000
	371,768	377,117	220,000	290,000
Current (unsecured)				
Bank term loans	271,033	322,213	149,000	157,000
Medium term notes	50,000	-	50,000	-
Commercial papers	35,000	35,000	35,000	35,000
Bankers acceptances	31,471	55,994	-	-
	387,504	413,207	234,000	192,000
Total	759,272	790,324	454,000	482,000

The non-current borrowings are payable as follows:-

- One to two years	213,183	277,117	150,000	190,000
- Two to five years	158,585	100,000	70,000	100,000
	371,768	377,117	220,000	290,000

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

20. BORROWINGS (cont'd)

(i) The interest rates for the following facilities are:-

	Group		Company	
	2010	2009	2010	2009
	%	%	%	%
Bank term loans	1.0 to 3.8	1.3 to 4.6	3.4 to 3.7	2.6 to 3.0
Bankers acceptances	2.2 to 3.2	2.4 to 6.7	-	-

(ii) The Commercial papers ("CPs") are issued at discounts ranging from 2.6% to 2.7% (2009: 2.3% to 2.4%) which are determined based on the Rules of Fully Automated System for Tendering of private debt securities ("FAST") and rules issued by Bank Negara Malaysia. The CPs have a maturity period of not less than 1 month to not more than 12 months.

The Medium term notes are issued at par to face value and have a maturity period of not less than 12 months and not more than 84 months. The interest rates are determined on issuance and calculated based on FAST rules and carry interest rates ranging from 4.9% to 5.1% per annum.

(iii) The following bank term loans are denominated in foreign currencies:-

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
USD loan	91,366	95,619	60,000	-

21. EMPLOYEE BENEFITS

(a) Retirement benefits

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
At 1 July	12,369	11,712	328	335
Provision	1,125	1,003	6	3
Payments	(527)	(346)	(1)	(10)
At 30 June	12,967	12,369	333	328

(b) Share-based payments

(i) Hong Leong Industries Berhad's ESOS ("HLI ESOS")

The HLI ESOS which was approved by the shareholders of the Company on 14 October 2005, was established on 23 January 2006 and shall be in force for a period of ten (10) years.

Hong Leong Yamaha Motor Sdn Bhd ("HLYM"), a 69.41% subsidiary of the Company, has granted conditional incentive share options ("HLI 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 HLYM ("Option Holders"). The HLI Options granted are subject to the achievement of certain performance criteria by the Option Holders over the option performance period.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

21. EMPLOYEE BENEFITS (cont'd)

(b) Share-based payments (cont'd)

(i) Hong Leong Industries Berhad's ESOS ("HLI ESOS") (cont'd)

At the end of the option performance period, the Option Holders fulfilled the performance criteria and accordingly, on 15 August 2008, HLYM vested the HLI Options over 2,000,000 ordinary shares of RM0.50 each in the Company ("Vested HLI Options") to the Option Holders. During the previous financial year, 800,000 Vested HLI Options, representing 40% of the Vested HLI Options have lapsed. On 14 February 2010, another 800,000 Vested HLI Options, representing another 40% of the Vested HLI Options have lapsed. As at 30 June 2010, a total of 1,600,000 Vested HLI Options have lapsed and the balance of the Vested HLI Options stood at 400,000.

The Vested HLI Options outstanding as at the end of the financial year of 400,000 units have a WAEP of RM5.51 and, if exercised, will be satisfied by existing HLI shares held by the ESOS Trust.

The weighted average share price for the financial year was RM4.28.

The fair value of services received in return for share options granted was based on the fair value of the HLI Options granted, measured using Black Scholes model, with the following inputs:-

Fair value of HLI Options measured at grant date and assumptions:-

Weighted average fair value	RM1.29
Weighted average share price	RM4.28
Exercise price	RM5.51
Expected volatility*	30.34%
Option life	4 years
Expected dividends	1.78%
Risk-free interest rate (based on Malaysian government bonds)	3.68%

(ii) Malaysian Pacific Industries Berhad's ("MPI") ESOS ("MPI ESOS")

The MPI ESOS which was approved by the shareholders of MPI on 14 October 2005, was established on 23 January 2006 and shall in force for a period of ten (10) years.

During the previous financial year ended 30 June 2007, MPI granted conditional incentive share options ("Options I") over 250,000 ordinary shares of RM0.50 each in MPI ("MPI Shares") at an exercise price of RM10.61 per MPI Share to an eligible executive of Carsem Semiconductor (Suzhou) Co., Ltd ("Carsem SZ"), a wholly-owned subsidiary of MPI, whilst Carsem (M) Sdn Bhd ("Carsem M") and Dynacraft Industries Sdn Bhd ("Dynacraft"), both subsidiaries of MPI, granted Options I over a total of 3,400,000 MPI shares at an exercise price of RM10.61 per MPI Share to eligible executives of Carsem M and Dynacraft.

The Options I granted were subject to the achievement of certain performance criteria by the option holders over the option performance period.

The Board of Dynacraft has determined that the option holders of Dynacraft ("Dynacraft Option Holders") have not achieved the performance criteria at the end of the option performance period. Hence, the conditional incentive share options over 800,000 MPI Shares ("Dynacraft Options") have not been vested to the Dynacraft Option Holders and accordingly, the Dynacraft Options lapsed during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

21. EMPLOYEE BENEFITS (cont'd)

(b) Share-based payments (cont'd)

(ii) *Malaysian Pacific Industries Berhad's ("MPI") ESOS ("MPI ESOS")* (cont'd)

The Board of MPI and Carsem M have respectively determined that the option holders of MPI and Carsem M ("MPI and Carsem M Option Holders I") have not achieved the performance criteria at the end of the option performance period. Hence, the Options I over a total of 2,850,000 MPI Shares ("MPI and Carsem M Options I") have not been vested to the MPI and Carsem M Option Holders I and accordingly, the MPI and Carsem M Options I lapsed subsequent to the end of financial year.

During the financial year, MPI has further granted conditional incentive share options ("Options II") over 100,000 MPI Shares at an exercise price of RM6.76 per MPI Share to an eligible executive of Carsem SZ whilst Carsem M has granted Options II over 850,000 MPI Shares at an exercise price of RM6.76 per MPI Share to eligible executives of Carsem M.

The Options II granted are subject to the achievement of certain other performance criteria by the option holders over the option performance period.

The Options II, if vested and exercised, will be satisfied by existing MPI Shares held by the ESOS Trust.

No Options were vested during the financial year. The weighted average share price for the financial year was RM6.04.

There is no movement in the number and weighted average exercise price ("WAEP") of the Options II during the financial year. The number of Options II outstanding as at the end of the financial year of 950,000 units have a WAEP of RM6.76 and were exercisable from 1 July 2011 to 31 December 2013, if vested.

The fair value of services received in return for share options granted was based on the fair value of the Options granted, measured using Black Scholes model, with the following inputs:

Fair value of Options measured at grant date and assumptions

Weighted average fair value at grant date	RM1.61
Weighted average share price	RM6.04
Exercise price	RM6.76
Expected volatility*	38.65%
Options life	4 years
Expected dividends	3.42%
Risk-free interest rate (based on Malaysian government bonds)	3.33%

- * The expected volatility reflects the assumption that the historical volatility was indicative of future trend, which might not necessarily be the actual outcome. No other features of the HLI Options and MPI Options granted were incorporated into the measurement of fair value.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Trade payables	207,576	148,823	-	-
Amounts due to				
- Subsidiary companies	-	-	9,299	9,241
- Related companies	10,160	11,766	-	-
Other payables	134,811	69,062	-	-
Accrued liabilities	117,241	121,124	1,999	17,002
	469,788	350,775	11,298	26,243

Group

Included in trade payables are amounts due to related and associated companies of RM11,813,000 (2009: RM13,232,000).

The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment.

Trade payables amounting to RM96,912,000 (2009: RM65,678,000) and RM3,391,000 (2009: RM4,844,000) are denominated in US Dollar and Euro respectively.

Company

The amounts due to subsidiary and related companies are unsecured, interest free and have no fixed terms of repayment.

23. PROFIT BEFORE TAXATION

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after (crediting)/charging:-				
Gross dividend income				
- Malaysian unquoted associated companies	-	-	(450)	(450)
- Unquoted associated company outside Malaysia	-	-	(38,123)	(2,517)
- Subsidiary company quoted in Malaysia	-	-	(28,750)	(23,000)
- Unquoted subsidiary companies	-	-	(24,229)	(28,088)
- Short term investments	(2,067)	(801)	(305)	(58)
Interest income				
- ESOS Trust	-	-	-	(914)
- Others	(3,212)	(4,449)	(265)	(559)
Rental income	(1,551)	(298)	-	-

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

23. PROFIT BEFORE TAXATION (cont'd)

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after (crediting)/charging:- (cont'd)				
Gain on liquidation of subsidiary companies	(39)	(428)	-	-
Loss on disposal of other investments	-	941	-	470
Auditors' remuneration				
- Holding company's auditors				
- Statutory audits	293	289	65	72
- Other services	23	26	21	-
- Other auditors				
- Statutory audits	213	218	-	-
- Other services	33	31	-	-
Depreciation of property, plant and equipment	234,684	261,084	-	-
Rental of plant and equipment	2,563	2,796	-	-
Rental of premises				
- Related companies	663	624	172	150
- Others	6,455	6,727	-	-
Employee benefits expense				
- Directors remuneration :				
- Executive Directors of the Company				
- Fees	220	220	70	70
- Salaries and bonuses	1,395	1,320	1,195	1,120
- Other emoluments	-	10	-	-
- Contributions to Employees Provident Fund	167	158	143	134
	1,782	1,708	1,408	1,324
- Non-Executive Directors of the Company				
- Fees	220	200	220	200
- Salaries and bonuses	2,450	1,260	-	-
- Other emoluments	80	70	80	70
- Contribution to Employees Provident Fund	-	119	-	-
- Share-based payments	60	685	-	-
	2,810	2,334	300	270
- Staff costs :				
- Staff salaries and other expenses	371,267	356,314	1,898	1,731
- Contribution to Employees Provident Fund	32,999	33,265	282	234
- Share-based payments	(3,205)	1,587	-	-
- Retirement benefits	1,125	1,003	6	3
- Retrenchment costs	-	13,717	-	-
Bad and doubtful debts	(1,194)	(3,773)	-	-
Property, plant and equipment written off	5,702	10,607	-	-
Gain on disposal of property, plant and equipment	(1,882)	(9,977)	-	-

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

23. PROFIT BEFORE TAXATION (cont'd)

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after (crediting)/charging:- (cont'd)				
Gain on disposal of prepaid lease payments	(9,274)	-	-	-
Impairment of property, plant and equipment	45,257	681	-	-
Inventories written (back)/down	(474)	13,313	-	-
Gain on redemption of redeemable preference shares in an associated company	-	-	-	(23,499)
(Gain)/loss on foreign exchange				
- Realised	(15,078)	68,659	(182)	14
- Unrealised	12,072	(3,526)	-	-
Impairment of value in				
- Investment in subsidiaries	36,000	-	29,353	-
- Other investment	-	3	-	-
Amortisation of intangible assets				
- Computer software	244	107	-	-
- Development expenditure	1,455	1,757	-	-
Finance costs				
- Bank overdrafts	-	18	-	10
- Term loans	15,325	16,747	10,524	9,391
- Others	9,221	17,433	6,053	12,452
Research and development expenditure	16,238	15,455	-	-
Amortisation of prepaid lease payment	510	526	-	-
Forfeiture of deposits	-	(6,109)	-	-
Subsidiaries' balances written off	-	-	3,822	7,772

The estimated monetary value of benefits-in-kind of the directors of the Company are as follows:-

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Executive Directors	23	24	23	24
Non-Executive Directors	177	53	-	-

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

24. TAXATION

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Current taxation				
Malaysian				
- Current year	27,666	24,462	-	-
- Prior years	3,379	(1,327)	1,995	202
Overseas - current	3,601	402	-	-
	34,646	23,537	1,995	202
Deferred taxation				
Malaysian				
- Current year	(39,530)	4,972	-	-
- Prior years	(1,748)	(1,307)	-	-
	(41,278)	3,665	-	-
	(6,632)	27,202	1,995	202

The reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax at the effective tax rate of the Group and of the Company are as follows:-

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	286,924	88,710	54,124	31,694
Taxation at Malaysian statutory tax rates of 25%	71,731	22,178	13,531	7,923
Tax effect in respect of:				
Difference of tax rates in foreign jurisdictions	(4,779)	(214)	-	-
Non allowable expenses	12,848	13,051	8,766	5,685
Non taxable income	(26,826)	(11,249)	(22,297)	(13,608)
Difference attributable to associated companies	(13,565)	(8,967)	-	-
Effect of temporary differences reversing in pioneer period	(33,867)	17,244	-	-
Addition of temporary differences not recognised	(5,332)	9,135	-	-
Tax incentive	(8,473)	(11,342)	-	-
	(8,263)	29,836	-	-
Under/(over) provision in prior years	1,631	(2,634)	1,995	202
Taxation	(6,632)	27,202	1,995	202

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

25. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The basic earnings per ordinary share is calculated by dividing the Group's profit attributable to equity holders of the Company of RM194,278,000 (2009: RM75,062,000) by the weighted average number of ordinary shares outstanding during the financial year of 261,574,000 (2009: 261,600,000) calculated as follows:-

Weighted average number of ordinary shares (basic)

	2010 '000	2009 '000
Issued ordinary shares at beginning of the financial year	281,145	281,145
Less:		
Treasury shares held at beginning of the financial year	(8,430)	(8,428)
Trust Shares held at beginning of the financial year	(11,140)	(10,611)
	261,575	262,106
Effect on purchase of treasury shares	(1)	(1)
Effect on purchase of Trust Shares	-	(505)
Weighted average number of ordinary shares (basic)	261,574	261,600

Diluted earnings per ordinary share

The Group has no dilution in its earnings per ordinary share in the current/previous financial years as the potential ordinary shares from the exercise of HLI Options would increase the basic earnings per ordinary share.

26. DIVIDENDS

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
First interim				
7 sen per share tax exempt (2009: 5 sen per share tax exempt)	18,310	13,079	19,090	13,636
Second interim				
10 sen per share tax exempt (2009: 5 sen per share tax exempt)	26,157	13,078	27,271	13,636
	44,467	26,157	46,361	27,272

Dividends received by the ESOS Trust amounting to RM1,894,000 (2009: RM1,115,000) are eliminated against the dividend expense of the Company upon consolidation of the ESOS Trust as disclosed in Note 2.1 (p)(iv).

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

27. OPERATING SEGMENTS

The Board of Directors reviews financial reports on at least a quarterly basis. Operating segments are components in which separate financial information is available that is evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing its performance.

The Group's reportable segments are as follows:-

- (a) Semiconductor - Assembly and test of semiconductor products
- (b) Consumer products - Manufacture and sale of consumer products comprising building materials and motorcycles

Segment profit

Performance is measured based on segment profit before interest income, finance costs, share of profit of associated companies and taxation as included in the internal management reports that are reviewed by the Board of Directors.

Segment assets

Segment assets information is not presented to the Board of Directors and hence, no disclosure is made on segment asset.

Segment liabilities

Segment liabilities information is not presented to the Board of Directors and hence, no disclosure is made on segment liability.

	Semiconductor		Consumer Products		Total	
	2010	2009	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment profit	89,496	(53,551)	178,721	151,700	268,217	98,149

Included in the measure of segment profit are:

Revenue from external customers	1,386,202	1,150,630	1,483,322	1,526,656	2,869,524	2,677,286
Depreciation and amortisation	213,669	240,649	22,736	22,188	236,405	262,837
Impairment/(reversal) of property, plant and equipment	45,257	(3,347)	-	4,028	45,257	681
Property, plant and equipment written off	5,636	8,653	66	1,954	5,702	10,607

Reconciliation of reportable segment profit

	2010	2009
	RM'000	RM'000
Profit		
Reportable segment	268,217	98,149
Non-reportable segment	(24,096)	(17,604)
Unallocated income	9,881	2,048
Interest income	3,212	4,449
Finance costs	(24,546)	(34,198)
Share of profit of associated companies	54,256	35,866
Consolidated profit before taxation	286,924	88,710

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

27. OPERATING SEGMENTS (cont'd)

	External Revenue RM'000	Depreciation & Amortisation RM'000
2010		
Reportable segments	2,869,524	236,405
Non-reportable segments	2,254	488
Total	2,871,778	236,893
2009		
Reportable segments	2,677,286	262,837
Non-reportable segments	1,824	637
Total	2,679,110	263,474

Geographical segments

Revenue of the Group by geographical location of the customers are as follows:

	Revenue	
	2010 RM'000	2009 RM'000
Malaysia	1,507,682	1,502,181
USA	307,323	261,776
Others	1,056,773	915,153
	2,871,778	2,679,110

Non-current assets of the Group by geographical location of the assets are as follows:

	Non-current Assets	
	2010 RM'000	2009 RM'000
Malaysia	1,550,213	1,606,762
The People's Republic of China	216,026	213,097
Others	81	92
	1,766,320	1,819,951

Major customer

During the financial year, there were no revenue from one single customer that contributed to more than 10% of the Group's revenue.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

28. COMMITMENTS

	Group	
	2010 RM'000	2009 RM'000
Capital commitments:		
Authorised and contracted for		
- Property, plant and equipment	127,744	83,552
- Investment (Note 31 (b))	16,017	-
Authorised but not contracted for		
- Property, plant and equipment	82,576	169,023
Operating lease commitments:		
Expiring within one year	1,178	1,133
Expiring between one to five years	6,541	6,186
Expiring after five years	34,489	36,022
	42,208	43,341

The Group has lease commitments of RM1,178,000 (2009: RM1,133,000) per annum in respect of three lots of land sub-leased at cost from a third party. The annual rental rate per square foot will increase by 30% every five years and lease will expire on 30 August 2031. The Group has an option to purchase outright from the third party at market value. The remaining lease tenure of the land is exercisable in any of the calendar years 2014, 2019, 2024 and 2029. None of the leases include contingent rental.

29. RELATED PARTIES

The Company has controlling related party relationships with its holding company and subsidiaries.

The Group has related party transactions with corporations which are related to the Directors and/or major shareholders of the Company and/or related corporations and/or persons connected with them as follows:-

- (i) Hong Leong Company (Malaysia) Berhad ("HLCM") is a major shareholder of the Company. YBhg Tan Sri Quek Leng Chan is a director and a major shareholder of the Company and HLCM. YBhg Datuk Kwek Leng San is a director and a shareholder of the Company and HLCM. Mr Kwek Leng Beng is a director of HLCM and a major shareholder of the Company and HLCM. Mr Quek Leng Chye and Mr Kwek Leng Kee are major shareholders of the Company and HLCM. YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San and Mr Quek Leng Chye are brothers. HLCM is a person connected with YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San, Mr Quek Leng Chye, Mr Kwek Leng Beng and Mr Kwek Leng Kee;
- (ii) Tasek Corporation Berhad ("Tasek") is a person connected with YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San, Mr Quek Leng Chye, Mr Kwek Leng Kee and Mr Kwek Leng Beng;
- (iii) Hong Bee Hardware Company, Sdn Berhad ("Hong Bee Hardware") and Hong Bee Motors Sdn Bhd ("Hong Bee Motors") are persons connected with Mr Chuah Chuan Thye, a Director of the Company, YBhg Tan Sri Quek Leng Chan, YBhg Datuk Kwek Leng San, Mr Quek Leng Chye, Mr Kwek Leng Kee and Mr Kwek Leng Beng;

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

29. RELATED PARTIES (cont'd)

(iv) Syarikat Motor Singa Sdn Bhd ("Syarikat Motor Singa") and Sing Heng Motor Trading Sdn Bhd ("Sing Heng Motor") are persons connected with Mr Ng Choong Hai, a Director of certain subsidiaries of the Company; and

(v) Yamaha Motor Co., Ltd ("YMC") is a major shareholder of a subsidiary of the Company. Yamaha Motor Asia Pte Ltd ("YMA"), Thai Yamaha Motor Co Ltd ("TYM"), Yamaha Motor Distribution Singapore Pte Ltd ("YDS") and P.T. Yamaha Indonesia Motor Manufacturing ("PT") are persons connected with YMC (YMC, YMA, TYM, YDS and PT are collectively referred to as "YMC Group").

Significant transactions with related parties are as follows:-

Transaction	Related Party	Group	
		2010 RM'000	2009 RM'000
(a) Sales of goods and services	Subsidiary and associated companies of HLCM	24,882	17,448
	Hong Bee Hardware and Hong Bee Motors	32,133	27,746
	Syarikat Motor Singa and Sing Heng Motor	11,728	12,525
	YMC Group	1,034	3,430
(b) Purchase of goods and services	Subsidiary and associated companies of HLCM	332,082	290,403
	YMC Group	164,527	234,579
	Tasek	32,550	30,354
(c) Rental of properties	Subsidiary and associated companies of HLCM	905	900
	YMC Group	148	410
(d) Provision of legal, secretarial, tax, personnel, credit control services and corporate office support services	Subsidiary and associated companies of HLCM	4,727	4,422
(e) Receipt of services	Subsidiary and associated companies of HLCM	988	2,526
(f) Receipt of Group management and/or support services	Subsidiary and associated companies of HLCM	7,257	7,238
(g) Payment for usage of the Hong Leong logo and trade mark	HLCM or subsidiary company of HLCM	38	113
(h) Payment of royalties and technical fees for usage of the Yamaha trade mark and technical support	YMC	10,067	10,820
(i) Receipt of research, development, advertising and promotional services	YMC	2,475	2,048

The above transactions have been carried out on normal commercial terms consistent with the usual business practices and policies of the Group and of the Company and on terms not more favourable to the related parties than those generally available to and/or from the public and are not detrimental to the minority shareholders.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

29. RELATED PARTIES (cont'd)

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel includes all the Directors of the Group.

30. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Exposure to credit, interest rate and currency risk arise in the normal course of the Group's and of the Company's business. The Directors of the Group and of the Company will consider and evaluate the risk management of the Group and of the Company periodically.

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.

The Group's and the Company's accounting policies in relation to derivative financial instruments are set out in Note 2.1(r) to the financial statements.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group and for the Company are represented by the carrying amount of each financial asset.

Liquidity risk

The Group and the Company actively manage its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Group and the Company maintain sufficient levels of cash to meet its working capital requirements.

Interest rate risk

The Group and the Company manage its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings.

The following table shows information about the enterprise's exposure to interest rate risk:-

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

30. FINANCIAL INSTRUMENTS (cont'd)

Effective interest rates and repricing analysis (cont'd)

	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 - 5 years RM'000
Group				
2010				
Fixed rate instruments				
Deposits with licensed financial institutions	2.04	288,374	288,374	-
Borrowings	4.26	166,471	116,471	50,000
Floating rate instruments				
Borrowings	3.16	592,801	422,801	170,000
2009				
Fixed rate instruments				
Deposits with licensed financial institutions	1.65	179,801	179,801	-
Borrowings	3.37	190,994	90,994	100,000
Floating rate instruments				
Borrowings	2.53	599,330	599,330	-
Company				
2010				
Fixed rate instruments				
Deposits with licensed financial institutions	2.21	9,572	9,572	-
Borrowings	4.36	135,000	85,000	50,000
Floating rate instruments				
Borrowings	3.50	319,000	149,000	170,000
2009				
Fixed rate instruments				
Deposits with licensed financial institutions	1.87	16,503	16,503	-
Borrowings	4.08	135,000	35,000	100,000
Floating rate instruments				
Borrowings	2.80	347,000	347,000	-

Foreign currency risk

The Group and the Company incurs foreign currency risk on sales and purchases that are denominated in the currency other than Ringgit Malaysia. The currencies giving rise to this risk primarily US dollars and Euro.

Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts, on a case by case basis.

NOTES TO THE FINANCIAL STATEMENTS

(cont'd)

30. FINANCIAL INSTRUMENTS (cont'd)

Fair value

Recognised financial instruments

There is no significant differences between the fair values and carrying values of the financial assets and liabilities of the Group and of the Company except for the following:-

Company	2010		2009	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Long term investment - quoted shares	601,077	710,692	601,077	574,993
Other assets	37,702	41,495	39,256	31,075

Unrecognised financial instruments

The nominal amount of the financial instruments not recognised in the balance sheet are as follows:-

	Group	
	2010 RM'000	2009 RM'000
Forward foreign exchange contracts	83,116	42,857

All the above forward foreign exchange contracts mature within 1 year. The fair value of the above contracts is not material.

31. SIGNIFICANT EVENTS

(a) Amkor Technology, Inc. ("Amkor") filed a complaint with the International Trade Commission ("ITC") on 17 November 2003 alleging Carsem (M) Sdn Bhd, Carsem Semiconductor Sdn Bhd (now known as Recams Sdn Bhd) and Carsem Inc. (collectively "Carsem Group") all of which are subsidiaries of Malaysian Pacific Industries Berhad, a 61.36% subsidiary of the Company, of infringing three of Amkor's United States Patents. Amkor also filed a civil lawsuit at the District Court on even date alleging Carsem Group of infringement of the same three patents which are the subject of the ITC Investigation.

After several years of investigations, the ITC has, on 20 July 2010 issued the final determination and found that the claims of Amkor's patents are invalid and not infringed and that Carsem Group has not violated the Tariff Act by importing the Micro Leadframe Package (MLP) Products which Amkor has accused of infringement.

(b) Guocera Holdings Sdn Bhd ("GHSB"), a wholly-owned subsidiary of the Company has on 26 March 2010, entered into a joint venture ("JV") contract with Infrastructure Development And Construction Corporation ("LICOI") to form a JV company to be known as Guocera Tile Industries (Vietnam) Co., Ltd. ("GTI(V)"). Subsequent to the establishment of GTI(V), GTI(V) shall acquire and operate a factory ("Factory") located in Dong Nai Province, Vietnam, which is currently involved in the production of porcelain tiles.

The proposed JV is subject to the issuance of an Investment Certificate by the Licensing Authority.

STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 38 to 84 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2010 and of their financial performance and cash flows for the year then ended.

On behalf of the Board

Datuk Kwek Leng San

Peter Nigel Yates

Kuala Lumpur
23 August 2010

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, Soon Wing Chong, being the officer primarily responsible for the financial management of HONG LEONG INDUSTRIES BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 38 to 84 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Soon Wing Chong
at Kuala Lumpur in the Federal Territory
on 23 August 2010

)
)
)
)

Soon Wing Chong

Before me

P.Valliamah
Pesuruhjaya Sumpah
Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Industries Berhad

Report on the Financial Statements

We have audited the financial statements of HONG LEONG INDUSTRIES BERHAD, which comprise the balance sheets as at 30 June 2010, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 84.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and the Company as of 30 June 2010 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:-

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 3 to the financial statements.
- (c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

INDEPENDENT AUDITORS' REPORT

to the members of Hong Leong Industries Berhad (cont'd)

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ling Kam Hoong & Co
AF: 0106
Chartered Accountants

Ling Kam Hoong
161/5/12 (J/PH)
Chartered Accountant

Kuala Lumpur
23 August 2010

OTHER INFORMATION

1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2010

Location	Tenure	Existing Use	Year of last Revaluation/ Acquisition	Approximate Area (Sq Ft)	Approximate Age of Building (Year)	Net Book Value as at 30 June 2010 (RM'000)
Lot 57 Persiaran Bukit Rahman Putra 3 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Office and factory building	1994	1,577,316	14	51,371
Lot 14/70 Jalan Utas 40000 Shah Alam Selangor Darul Ehsan	11 Jun 2071	Office and factory building	1983	456,000	23 - 29	13,406
PF 70 Alte Marienberger Strasse 30-35 09401 Zschopau-Hohndorf Germany	Freehold	Office and factory building	1996	823,338	15 - 29	3,024
5 1/4 miles Jalan Kapar Rantau Panjang 42100 Klang Selangor Darul Ehsan	Freehold	Office and factory building	1982	338,059	19 - 41	9,094
5 1/2 miles Jalan Meru 41050 Klang Selangor Darul Ehsan	Freehold	Office and factory building	1983 - 1991	871,600	19 - 29	24,777
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and Factory building	1985	261,633	25	6,958
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and Factory building	1985	1,061,775	20	5,514
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and Factory building	1985	747,108	17	18,519
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Office and Factory building	1985	256,187	1	38,327
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Warehouse	1985	907,790	15	14,571
201, Jalan Mengkibol 86000 Kluang Johor Darul Takzim	Freehold	Warehouse	2007	418,447	14	10,074
Ranca-Ranca Industrial Estate Labuan Federal Territory	31 Dec 2043	Office and factory building	1990	109,900	26	241
CL-205228842 Lot 5331 Labuan Federal Territory	1 Jan 2057	Vacant land	1993	243,936	-	7

OTHER INFORMATION

(cont'd)

1. PROPERTIES HELD BY THE GROUP AS AT 30 JUNE 2010 (cont'd)

Location	Tenure	Existing Use	Year of last Revaluation/ Acquisition	Approximate Area (Sq Ft)	Approximate Age of Building (Year)	Net Book Value as at 30 June 2010 (RM'000)
No 367 A & B Jalan Melaka Raya Taman Melaka Raya 75000 Melaka	4 Oct 2082	3 storey mid terrace shop office	1996	1,399	27	167
Jalan Lapangan Terbang 30720 Ipoh Perak Darul Ridzuan	20 Apr 2074	Office and factory building	1998	158,297	14 - 35	15,375
Jalan Lapangan Terbang 30720 Ipoh Perak Darul Ridzuan	15 Aug 2081	Office and factory building	1998	64,469	12 - 22	13,989
Jalan Lapangan Terbang 30720 Ipoh Perak Darul Ridzuan	23 May 2082	Office and factory building	1998	19,849	14 - 22	1,002
Jalan Lapangan Terbang 30720 Ipoh Perak Darul Ridzuan	8 May 2039	Industrial land - factory under construction	1998 & 1999	53,724	-	15,278
Jalan Lapangan Terbang 30720 Ipoh Perak Darul Ridzuan	8 May 2039	Office and factory building	1989	45,680	16	2,389
Jalan Lapangan Terbang 30720 Ipoh Perak Darul Ridzuan	6 Nov 2063	Multi-storey car park	2003	66,812	3	6,845
Lot 52986 Kawasan Perindustrian Taman Meru 30020 Jelapang Perak Darul Ridzuan	29 Oct 2091	Office and factory building	1992	1,348,704	19	64,585
Plot 73021 Shenxu Road Suzhou Industrial Park The Municipality of Suzhou Province of Jiangsu The People's Republic of China	19 Aug 2052	Office and factory building	2002	645,823	7	22,183
Lot 2367 11900 Bayan Lepas Pulau Pinang	31 Aug 2031	Office and factory building*	1995	257,000	16	24,967
Lot 8 11900 Bayan Lepas Pulau Pinang	6 Jan 2070	Office and factory building	1995	227,441	11	14,978
Plot 15 11900 Bayan Lepas Pulau Pinang	6 Jan 2070	Vacant office and factory building	2005	208,357	5	24,016
Section 7 Phase 1A Pulau Indah Industrial Park West Port Selangor Darul Ehsan	24 Feb 2097	Vacant industrial land	1996	684,720	-	9,682

* These buildings are situated on an operating lease land as disclosed in Note 28 of the financial statements.

OTHER INFORMATION

(cont'd)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010

Class of shares	:	Ordinary share of RM0.50 each
Voting Rights		
• On a show of hands	:	1 vote
• On a poll	:	1 vote for each share held

Distribution Schedule Of Shareholders As At 30 August 2010

Size of Holdings	No. of Shareholders	%	No. of Shares*	%
Less than 100	139	5.24	2,710	0.00
100 – 1,000	856	32.25	717,164	0.26
1,001 – 10,000	1,297	48.87	4,876,323	1.79
10,001 – 100,000	283	10.66	8,334,530	3.06
100,001 – less than 5% of issued shares	74	2.79	105,131,615	38.55
5% and above of issued shares	5	0.19	153,651,025	56.34
	2,654	100.00	272,713,367	100.00

Note:

* Excluding 8,432,500 shares bought back and retained by the Company as treasury shares.

List Of Thirty Largest Shareholders As At 30 August 2010

Name of Shareholders	No. of Shares	%
1. Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	39,651,025	14.54
2. CIMB Group Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	38,000,000	13.93
3. Mayban Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	32,000,000	11.73
4. HSBC Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	30,000,000	11.00
5. ABB Nominee (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	14,000,000	5.13
6. Malaysia Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	13,000,000	4.77
7. Lembaga Tabung Haji	11,560,800	4.24
8. Assets Nominees (Tempatan) Sdn Bhd - Exempt AN for Hong Leong Industries Berhad (ESOS)	11,139,800	4.09
9. Scotia Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	11,000,000	4.03
10. Public Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	7,000,475	2.57

OTHER INFORMATION

(cont'd)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010 (cont'd)

List Of Thirty Largest Shareholders As At 30 August 2010 (cont'd)

Name of Shareholders	No. of Shares	%
11. EB Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	5,200,000	1.91
12. Mayban Nominees (Tempatan) Sdn Bhd - Public Itfikal Fund	4,401,600	1.61
13. Mayban Nominees (Tempatan) Sdn Bhd - Public Regular Savings Fund	3,557,100	1.31
14. Assets Nominees (Tempatan) Sdn Bhd - Soft Portfolio Sdn Bhd	2,512,000	0.92
15. Low Poh Weng	2,491,000	0.91
16. Amanahraya Trustees Berhad - Public Smallcap Fund	2,254,600	0.83
17. Amanahraya Trustees Berhad - Public Islamic Sector Select Fund	2,123,500	0.78
18. Hong Bee Hardware Company, Sdn. Berhad	2,019,145	0.74
19. HSBC Nominees (Asing) Sdn Bhd - Kwek Leng San	1,800,000	0.66
20. Hong Leong Assurance Berhad - As Beneficial Owner	1,612,902	0.59
21. Valuecap Sdn Bhd	1,550,000	0.57
22. Citigroup Nominees (Asing) Sdn Bhd - Dimensional Emerging Markets Value Fund	1,225,800	0.45
23. HLG Nominee (Tempatan) Sdn Bhd - Chut Nyak Isham Bin Nyak Ariff	1,167,000	0.43
24. RHB Capital Nominees (Tempatan) Sdn Bhd - Poh Soon Sim	1,100,700	0.40
25. AIBB Nominees (Tempatan) Sdn Bhd - Low Mei Loon	1,070,000	0.39
26. Grandeur Holdings Sdn Bhd	1,022,000	0.38
27. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad - Hong Leong Company (Malaysia) Berhad	902,000	0.33
28. Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank NA, Singapore (Julius Baer)	800,000	0.29
29. Citigroup Nominees (Asing) Sdn Bhd - Lofly Dragon Management Limited	750,000	0.28
30. Amanahraya Trustees Berhad - Public Islamic Sector Treasures Fund	740,000	0.27
	245,651,447	90.08

OTHER INFORMATION

(cont'd)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010 (cont'd)

Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 30 August 2010 are as follows:

Name of Shareholders	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
1. Hong Leong Company (Malaysia) Berhad ("HLCM")	190,953,500	70.02	2,350,592	0.86#
2. YBhg Tan Sri Quek Leng Chan ("Tan Sri Quek")	-	-	198,585,237	72.82**
3. HL Holdings Sdn Bhd	-	-	193,304,092	70.88*
4. Hong Realty (Private) Limited	-	-	195,323,237	71.62^
5. Hong Leong Investment Holdings Pte Ltd	-	-	195,323,237	71.62^
6. Kwek Holdings Pte Ltd	-	-	195,323,237	71.62^
7. Mr Kwek Leng Beng	-	-	195,323,237	71.62^
8. Mr Kwek Leng Kee	-	-	195,323,237	71.62^
9. Davos Investment Holdings Private Limited	-	-	195,323,237	71.62^
10. Mr Quek Leng Chye	-	-	195,323,237	71.62^

Notes:

Held through subsidiaries.

* Held through HLCM.

** Held through HLCM and companies in which Tan Sri Quek and his children have interests.

^ Held through HLCM and a company in which the substantial shareholder has interest.

OTHER INFORMATION

(cont'd)

3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2010

Subsequent to the financial year end, there is no change, as at 30 August 2010, to the Directors' interests in the ordinary shares and/or preference shares and/or options/convertible bonds of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 31 to 34 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 except for the changes set out below:

	No. of ordinary shares	%
Indirect Interests		
YBhg Tan Sri Quek Leng Chan in:		
GuocoLeisure Limited	908,175,425	66.38
Hong Leong Industries Berhad	198,585,237	72.82@
Bondway Properties Limited (In members' voluntary liquidation)	Nil	Nil#

Notes:

@ Inclusive of shares held by children who are not directors of the Company.

Dissolved by members' voluntary liquidation.

4. SHARE BUY BACK SCHEDULE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Month	No. of Shares Bought Back	Highest Price Paid RM	Lowest Price Paid RM	Average Price Paid* RM	Total Consideration* RM
November 2009	1,000	4.40	4.40	4.45	4,446
May 2010	1,000	4.30	4.30	4.35	4,346

Note:

* Inclusive of transaction charges.

5. MATERIAL CONTRACTS

There are no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interest of Directors and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year pursuant to Item 21, Part A, Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.



Hong Leong Industries Berhad (5486-P)

A Member of the Hong Leong Group

FORM OF PROXY

I/We _____

NRIC/Passport/Company No. _____

of _____

being a member of HONG LEONG INDUSTRIES BERHAD, hereby appoint _____

NRIC/Passport No. _____

of _____

or failing him/her _____

NRIC/Passport No. _____

of _____

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Forty-seventh Annual General Meeting of the Company to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Thursday, 14 October 2010 at 11.30 a.m. and at any adjournment thereof.

My/Our proxy/proxies is/are to vote either on a show of hands or on a poll as indicated below with an "X":

NO	RESOLUTIONS	FOR	AGAINST
1.	To approve the payment of Director fees		
2.	To re-elect YBhg Tan Sri Quek Leng Chan as a Director		
3.	To re-elect YBhg Datuk Kwek Leng San as a Director		
4.	To re-elect Mr Peter Nigel Yates as a Director		
5.	To re-appoint YM Raja Dato' Seri Abdul Aziz bin Raja Salim as a Director pursuant to Section 129 of the Companies Act, 1965		
6.	To re-appoint Messrs Ling Kam Hoong & Co as Auditors and authorise the Directors to fix their remuneration		
7.	As a special business, to approve the ordinary resolution on authority to Directors to issue shares		

Dated this day of 2010

Number of shares held

Signature(s) of Member

Notes:

1. If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.
2. If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.
3. 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.
4. A member shall not be entitled to appoint more than two proxies to attend and vote at the same meeting. Where two proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in order for the appointments to be valid (please see note 7 below). Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
5. In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.
6. All Forms of Proxy must be duly executed and 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 for holding the meeting or adjournment meeting.
7. In the event two (2) proxies are appointed, please fill in the ensuing section.

Names of Proxies	% of shareholdings to be represented

Fold This Flap For Sealing

Then Fold Here

Affix
Stamp

The Company Secretary
HONG LEONG INDUSTRIES BERHAD
Level 9, Wisma Hong Leong
18, Jalan Perak
50450 Kuala Lumpur

1st Fold Here