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**Hong Leong Credit Berhad** (8024-W)

A Member of the Hong Leong Group Malaysia

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# Corporate information

## Directors

YBhg Tan Sri Quek Leng Chan  
(Executive Chairman)

Mr Tsui King Chung, David  
(President & Chief Executive Officer)

YBhg Dato' Haji Kamarulzaman Bin Mohammed

YBhg Tan Sri Dato' Seri Khalid Ahmad Bin Sulaiman

Dr Poh Soon Sim

YBhg General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali

Ms Yvonne Chia

Mr Lean Chee Yeow

Mr Low Teik Leong

## Secretary

Ms Loh Bee Hong

## Auditors

Messrs PricewaterhouseCoopers  
Chartered Accountants  
11th Floor, Wisma Sime Darby  
Jalan Raja Laut  
50350 Kuala Lumpur  
Tel : 03-26931077  
Fax : 03-26930997

## Registrar

Hong Leong Share Registration Services Sdn Bhd  
Level 5, Wisma Hong Leong  
18 Jalan Perak, 50450 Kuala Lumpur  
Tel : 03-21641818  
Fax : 03-21643703

## Registered office

Level 6, Wisma Hong Leong  
18 Jalan Perak, 50450 Kuala Lumpur  
Tel : 03-21648228  
Fax : 03-21642503

## Directors' profile

### YBhg Tan Sri Quek Leng Chan

*Executive Chairman/Non-Independent*

Tan Sri Quek Leng Chan, aged 62, 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 Credit Berhad ("HLC") and was appointed to the Board of Directors ("Board") of HLC on 6 September 1968. He is the Chairman of the Executive Share Option Scheme ("ESOS") Committee of HLC.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad ("HLCM"), Executive Chairman of Hong Leong Industries Berhad ("HLI"), GuocoLand (Malaysia) Berhad (formerly known as Hong Leong Properties Berhad) ("GLM"), Hume Industries (Malaysia) Berhad ("HIMB"), Narra Industries Berhad, Camerlin Group Berhad and O.Y.L. Industries Bhd ("OYL") and Chairman of Hong Leong Bank Berhad ("HLB"), HLG Capital Berhad ("HLGC"), Hong Leong Islamic Bank Berhad ("HLIB") and Hong Leong Assurance Berhad ("HLA").

Tan Sri Quek attended all the four Board meetings of HLC held during the financial year ended 30 June 2005.

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

### Mr Tsui King Chung, David

*President & Chief Executive Officer/Non-Independent*

Mr Tsui King Chung, David, aged 57, a British, graduated with Hong Kong University Matriculation "A" Level. He joined the banking industry since 1967 and was involved in the area of information services. Mr Tsui held various senior positions in Chase Manhattan Bank from July 1978 to August 1996. Mr Tsui is currently the President and Chief Executive Officer of HLC. Prior to joining HLC, Mr Tsui was the Group Chief Information Officer of Dao Heng Bank Group Limited from August 1996 to June 2001 and Chief Information Officer of Dao Heng Bank Limited (now known as DBS Bank (HK) Limited) from July 2001 to April 2004.

Mr Tsui was appointed to the Board of HLC on 5 May 2004 and is a member of the Board Audit and Risk Management Committee ("BARMC") of HLC. Mr Tsui attended all the four Board Meetings of HLC held during the financial year ended 30 June 2005.

Mr Tsui is also a Director of HLB and HLGC, both public listed companies, and HLA, a public company.

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

### YBhg Dato' Haji Kamarulzaman bin Mohammed

*Non-Executive Director/Independent*

YBhg Dato' Haji Kamarulzaman bin Mohammed, aged 75, a Malaysian, holds a Certificate in Public Administration from the University of Manchester, United Kingdom. He was with the Government service from 1952 - 1975 serving as Special Secretary in Parliament from 1972 to 1974 and Deputy Secretary-General in the Ministry of Health from 1974 to 1975. From 1976 to 1985, he was the Deputy Managing Director of Asiavest Merchant and Discount House.

YBhg Dato' was appointed to the Board of HLC on 1 May 1981 and is a Non-Executive Independent member of the BARMC of HLC.

YBhg Dato' attended all the four Board Meetings of HLC held during the financial year ended 30 June 2005.

YBhg Dato' is also a Director of HLG Unit Trust Bhd, a public company.

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

# Directors' profile

(continued)

## YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman

*Non-Executive Director/Independent*

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, aged 69, a Malaysian, was educated in England and was called to the English Bar at Middle Temple in 1964. He is practicing as an Advocate & Solicitor as a senior partner in a legal firm in Penang. He is the Chairman of the Advocates and Solicitors Disciplinary Board. He was in the Penang State Executive Council from 1974 to 1982 and has served on various statutory Boards.

He was appointed to the Board of HLC on 1 July 1982. He is also the Chairman of the BARMC of HLC.

He attended three out of the four Board Meetings of HLC held during the financial year ended 30 June 2005.

He is also a Director of HLGC and the Senior Independent Board Member for IGB Corporation Berhad, both public listed companies.

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

## Dr Poh Soon Sim

*Non-Executive Director/Non-Independent*

Dr Poh Soon Sim, aged 60, a Malaysian, graduated from the University of Singapore with a MBBS degree in 1971. He is also a fellow of the Royal Society of Medicine, United Kingdom. He has been in private medical practice since 1972.

Dr Poh was appointed to the Board of HLC on 31 January 1991 and is a member of the ESOS Committee.

Dr Poh attended all the Board Meetings of HLC held during the financial year ended 30 June 2005.

Dr Poh is also a Director of HLCM, a public company.

Dr Poh has no family relationship with other directors or major shareholders of HLC, has no conflict of interest with HLC and has no conviction for offences within the past ten years.

## General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali

*Non-Executive Director/Independent*

General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali, aged 70, a Malaysian, attended the Harvard Business School Advance Management Programme Course in 1991 where he obtained a Diploma in Advance Management prior to his retirement from the Malaysian Armed Forces in 1992. He joined the Malaysian Armed Forces in 1953 and was first commissioned in the Royal Malay Regiment in 1956 after attending a series of Military Officer Cadet Courses both in Malaysia and overseas, particularly the Royal Military Academy in Sandhurst, England. He served in the Malaysian Armed Forces for 38 years and 9 months before retiring in April 1992 as the Chief of the Defence Forces. During his term in the Malaysian Armed Forces, he had initiated the re-organisation and modernisation of the Army. In May 1992, he joined Perwira Niaga Malaysia (PERNAMA) as Chairman, a company that serves the Malaysian Armed Forces. In January 1999, YBhg Gen (Rtd) Tan Sri was conferred the Honorary Doctorate by the University of Salford, United Kingdom.

YBhg Gen (Rtd) Tan Sri was appointed to the Board of HLC on 8 June 1992.

YBhg Gen (Rtd) Tan Sri attended three out of the four Board Meetings of HLC held during the financial year ended 30 June 2005.

YBhg Gen (Rtd) Tan Sri's other directorships of public listed companies are as follows:

- Non-Executive Chairman of Country Heights Holdings Berhad
- Non-Executive Chairman of Ajinomoto (Malaysia) Berhad
- Non-Executive Director of Arab Malaysian Corporation Berhad
- Non-Executive Director of Konsortium Logistik Berhad
- Non-Executive Chairman of Delloyd Ventures Berhad
- Non-Executive Director of IOI Oleochemical Industries Bhd

YBhg Gen (Rtd) Tan Sri has no family relationship with other Directors or major shareholders of HLC, has no conflict of interest with HLC and has no conviction for offences within the past ten years.

# Directors' profile

(continued)

## Ms Yvonne Chia

*Non-Executive Director/Non-Independent*

Ms Yvonne Chia, aged 52, a Malaysian, holds a Bachelor of Economics from the University of Malaya in 1976. An international banker, she started her career in banking with Bank of America and held various positions in Hong Kong, Manila and Kuala Lumpur between 1976 to 1993; the last position being Vice-President and Country Head of Marketing. In March 1994, Ms Chia joined RHB Bank Berhad as General Manager and went on to become Chief Executive Officer/Managing Director of RHB Bank Berhad, a position she held until March 2002. She was made a Fellow of Institute of Bankers Malaysia in April 2002 and is also a Certified Risk Professional (CRP) with BAI. On 17 March 2003, she joined HLB as an Executive Director and was re-designated as Group Managing Director/Chief Executive Officer of HLB on 10 November 2003. In August 2005, Ms Chia was appointed to Wharton Fellows of the University of Pennsylvania.

Ms Chia was appointed to the Board of HLC on 9 January 2004.

Ms Chia attended three out of the four Board Meetings of HLC held during the financial year ended 30 June 2005.

Ms Chia is a Director of HLB, a public listed company. Ms Chia is also a Director of Malaysia External Trade Development Corporation (MATRADE), Cagamas Berhad and HLIB, all public companies.

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

## Mr Lean Chee Yeow

*Non-Executive Director/Non-Independent*

Mr Lean Chee Yeow, aged 36, a Malaysian, graduated with Bachelor of Economics and Accountancy (Honours) from City University of London, United Kingdom. His previous work experiences includes corporate finance, equity research and private equity with companies such as Commerce International Merchant Bankers, HSBC James Capel and Asia Equity Infrastructure Fund. In the course of his career, he has been based in cities such as Singapore, Hong Kong and Bangkok. Mr Lean is currently the Group Managing Director/Chief Executive Officer of HLGC.

Mr Lean was appointed to the Board of HLC on 8 November 2004.

Mr Lean attended all the three Board Meetings of HLC held during his office as Director of HLC for the financial year ended 30 June 2005.

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

## Mr Low Teik Leong

*Non-Executive Director/Non-Independent*

Mr Low Teik Leong, aged 46, a Malaysian, graduated with a Bachelor of Economic (A Econs) from University of Malaya. He has more than 23 years of experience in the insurance industry. Mr Low is currently the Group Managing Director/Chief Executive Officer of HLA. Prior to joining HLA, he was the General Manager of BIB Insurance Brokers Sdn Bhd.

Mr Low was appointed to the Board of HLC on 18 March 2005

Mr Low attended one Board Meeting of HLC held during his office as Director of HLC for the financial year ended 30 June 2005.

Mr Low is also a Director of HLA, a public company.

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

# Board audit & risk management committee report

## Constitution

The Board Audit Committee of Hong Leong Credit Berhad ("HLC" or "the Company") had been established since 23 March 1994 and had been re-designated as the Board Audit & Risk Management Committee ("the BARMC") on 29 August 2001.

## Composition

The BARMC had been reconstituted as follows:-

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman  
(Chairman, Independent Non-Executive Director)

Mr Tsui King Chung, David  
(Non-Independent Executive Director)

YBhg Dato' Haji Kamarulzaman bin Mohammed  
(Independent Non-Executive Director)  
(Appointed on 27 July 2005)

Dr Poh Soon Sim  
(Redesignated from Independent Non-Executive Director to Non-Independent Non-Executive Director on 27 July 2005)  
(Resigned on 27 July 2005)

## Secretary

The Company Secretary shall be the Secretary to the BARMC.

## Terms Of Reference

- To nominate and recommend for the approval of the Board of Directors ("Board"), a person or persons as external auditors(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 officers of HLC and its subsidiaries ("the Group") to the external auditors.
- To review the quarterly reports and annual financial statements of the Company and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions and resources of the internal audit functions.
- To review the report and findings of the internal audit department including any findings of internal investigation 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 and monitor the business and financial risks facing the Group and to ensure that all high impact risks are adequately managed at various levels within the Group.
- To review any related party transactions that might arise within the Company or the Group.
- Other functions as may be agreed to by the BARMC and the Board.

# Board audit & risk management committee report

(continued)

## Authority

The BARMC is authorised by the Board to review any activity of 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 BARMC.

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

## Meetings

The BARMC 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/risk management and internal audit and external auditors are invited to attend the BARMC meetings. At least once a year, the BARMC will have a separate session with the external auditors without the presence of Executive Directors.

Two (2) members of the BARMC, who shall be independent and non-executive, shall constitute a quorum.

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

## Activities

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

During the financial year ended 30 June 2005, four (4) BARMC meetings were held and all the meetings were attended by all the BARMC members.

The BARMC reviewed the quarterly reports and annual financial statements of the Group. The BARMC 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 BARMC reviewed the internal auditor's audit findings and recommendations.

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

The BARMC reviewed various related party transactions carried out by the Group.

## Internal Audit

During the financial year ended 30 June 2005, the internal audit department carried out its duties covering business audit, system and financial audit.



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

## A Directors

### I The Board

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

### II Board Balance

The Board comprises nine (9) directors, seven (7) 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 Board met four (4) times during the financial year ended 30 June 2005.

The Board has identified YBhg Tan Sri Dato' Seri Khalid Ahmad Bin Sulaiman, the Chairman of the Board Audit & Risk Management Committee ("BARMC"), as the Independent Non-Executive Director of the Board to whom concerns may be conveyed, who would bring the same to the attention of the Board.

### III Supply of Information

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

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

### IV Appointments to the Board

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

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

The Company does not have a formal training programme for new Directors. However, to assist the Directors in discharging their duties, the Company has developed Directors' Manual where each new Director will be given a copy at the point of his appointment. The Directors' Manual highlights, amongst others, the major duties and responsibilities of a Director vis-à-vis various laws, regulations and guidelines governing the same. The new Director will be given briefing on the business of the Group and regulatory issues. Directors of the Company will also be updated from time to time of any new or changes to companies and securities legislation, rules and regulations.

### V Re-election

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

# Corporate governance & internal control

(continued)

## B Directors' Remuneration

### I Level and make-up of Remuneration

The Company does not have a Remuneration Committee.

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

For Non-Executive Directors, the level of remuneration reflects the level of responsibilities undertaken by them.

### II Procedure

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

The fees of directors, including Non-Executive Directors, are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting ("AGM").

### III Disclosure

The aggregate remuneration of directors (including those who have resigned during the year and those who are Executive Directors of subsidiaries) for the financial year ended 30 June 2005 is as follows:

	Fees (RM)	Salaries & other emoluments (RM)	Total (RM)
Executive Directors	504,024	2,233,934	2,737,958
Non-Executive Directors	511,942	2,639,051	3,150,993

The number of Directors whose remuneration fall into the following bands is as follows:

Range of Remuneration (RM)	Executive	Non-Executive
50,000 and below	-	1
50,001-100,000	-	2
100,001-150,000	-	-
150,001-200,000	-	2
200,001-300,000	-	-
300,001-350,000	-	1
350,001-400,000	1	-
400,001-500,000	-	-
500,001-550,000	-	1
550,001-1,700,000	-	-
1,700,001-1,750,000	-	1
1,750,001-2,350,000	-	-
2,350,001-2,400,000	1	-

## C Shareholders

### I Dialogue between Companies and Investors

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

### II AGM

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

## D Accountability and Audit

The BARMC was established on 23 March 1994 as the Board Audit Committee and had been re-designated as the BARMC on 29 August 2001. The financial reporting and internal control system of the Group is overseen by the BARMC, which comprises a majority of Non-Executive Directors. The primary responsibilities of the Committee are set out in the BARMC Report.

The Committee met four (4) times during the financial year ended 30 June 2005. Details of attendance of the committee members are set out in the BARMC Report appearing on page 7 of the Annual Report.

The BARMC is supported by the Internal Audit Department whose principal responsibility is to conduct periodic audits on the internal control matters to ensure compliance with systems and/or standard operating procedures of the Group. Investigation will be made at the request of the BARMC and senior management on specific areas of concern when necessary. Significant breaches and deficiencies identified are discussed at the BARMC 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 BARMC, which assesses the financial statements with the assistance of the external auditors.

### II Internal Control

The Board has overall responsibility for maintaining a system of internal controls which covers financial and operational controls and risk management. This system provides reasonable but not absolute assurance against material misstatements, losses and fraud.

Following the re-designation of the BARMC mentioned above, the BARMC is also entrusted with the responsibility of identifying and communicating to the Board critical risks the Group faces, changes to the Group's risk profile and management's action plans to manage the risks.

### III Relationship with Auditors

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

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

## E Statement On Internal Control

A risk management framework is in place to assist the Board of Directors ("Board") to discharge its responsibility in maintaining a system of internal controls and for reviewing its adequacy and integrity. The risk management framework assists the Board in:

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

The Board Audit & Risk Management Committee ("BARMC") has been entrusted with the responsibility to oversee the implementation of the risk management framework of the Group. In discharging this responsibility, the BARMC ensures that its subsidiaries have in place their respective risk management framework for management of significant risks within broadly similar parameters. The BARMC provides oversight on the proper functioning of risk management framework of the subsidiaries by undertaking periodic review of their risk management process to the extent permissible under the regulatory framework of the subsidiaries and is also given assurance at these reviews on the adequacy and integrity of the system of internal controls. In discharging this oversight role, the BARMC is assisted by the Internal Audit Department and Chief Risk Officer of each of the main subsidiaries.

A Chief Risk Officer has been appointed to administer the risk management framework of the Group. The Chief Risk Officer 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
- regularly report to the BARMC on the state of internal controls and the management of risks throughout the Group.

These on-going processes which have been in place remain unchanged for the year under review, and are reviewed regularly by the BARMC.

The controls built into the risk management framework are 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 Listing Requirements of the Bursa Malaysia Securities Berhad require the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of financial year and of the results and cash flow of the Group and of the Company for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group and of the Company for the financial year ended 30 June 2005, 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.

# Notice of annual general meeting

**NOTICE IS HEREBY GIVEN** that the Thirty-sixth Annual General Meeting of Hong Leong Credit Berhad ("Company") will be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 8 November 2005 at 11.30 a.m. in order:

1. To receive and consider the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2005;
2. To approve the payment of Directors' fees of RM411,206 to be divided amongst the Directors in such manner as the Directors may determine;
3. To re-elect YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, Dr Poh Soon Sim, Mr Lean Chee Yeow and Mr Low Teik Leong, the retiring Directors;
4. To approve the following motions:
  - a) "THAT YBhg Dato' Haji Kamarulzaman bin Mohammed, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-elected a Director of the Company to hold office until the conclusion of the next Annual General Meeting."
  - b) "THAT YBhg General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-elected a Director of the Company to hold office until the conclusion of the next Annual General Meeting.";
5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration;
6. As a special business, to consider and, if thought fit, pass the following ordinary motion:-

#### **Authority To Directors To Issue Shares**

"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on the 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

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

By Order of the Board

LOH BEE HONG

Secretary

Kuala Lumpur

17 October 2005

#### **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 6, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time and date of the meeting or adjourned meeting.
3. **Ordinary Resolution On Authority To Directors To Issue Shares**  
The Ordinary Resolution, if passed, will give authority to the Directors of the Company to issue ordinary shares of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

# Statement accompanying notice of annual general meeting

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

## 1. Directors who are standing for re-election at the 36th Annual General Meeting of the Company

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

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman

Dr Poh Soon Sim

Pursuant to Article 94 of the Company's Articles of Association

Mr Lean Chee Yeow

Mr Low Teik Leong

Pursuant to Section 129 of the Companies Act, 1965

YBhg Dato' Haji Kamarulzaman bin Mohammed

YBhg General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali

## 2. Details of attendance of Directors at Board Meetings

There were four (4) Board meetings held during the financial year ended 30 June 2005. Details of attendance of the Directors are set out in the Directors' Profile appearing on pages 3 to 5 of the Annual Report.

## 3. Place, Date and Time of 36th Annual General Meeting

The 36th Annual General Meeting of the Company will be held at Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 8 November 2005 at 11.30 a.m.

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

No individual is seeking election at the forthcoming 36th Annual General Meeting of the Company.

# Chairman's statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Hong Leong Credit Berhad for the year ended 30 June 2005.

## Operating Environment

After recording a strong GDP growth in the first half of 2004, the growth momentum of the Malaysian economy eased somewhat in the second half of 2004. The prospect of rising interest rates coupled with the increase in oil prices, put a slight damper on the Malaysian growth prospects. Despite this, Malaysia achieved an overall GDP growth in 2004 of 7.1%.

The Malaysian economy remained resilient in the first quarter of 2005 with a real GDP growth of 5.7%, which was broad based, with all major sectors of the economy recording positive growth, save for the construction sector. The growth was again driven by private sector economic activity as the Malaysian Government and Bank Negara continued to adopt a more supportive role in positioning the economy for sustainability and long-term growth.

The banking and finance industry in Malaysia has continued to remain sound and profitability has generally improved across the board. Net non-performing loans based on 3-month classification in the industry has declined to 7.1% in June 2005, its lowest since the Asian financial crisis while the capital adequacy of the industry remained strong at 13.2%. Competition among banks has remained intense throughout the period under review, especially in the mortgage and small and medium enterprises ("SME") financing market. Hence, interest margins continued its downward trend. The competition has led banks to innovate and value-add their products and services in order to better meet customer needs and thus, resulted in local financial institutions evolving steadily from mere product oriented businesses into customer centric professional financial advisors. Nevertheless, traditional banking services continued to be strongly supported by financial institutions in Malaysia with many upgrading their services in order to better meet the growing customer service needs.

## Financial Performance

The Hong Leong Credit Group ("HLC" or "the Group") registered an improved performance this year with a growth in pre-tax profits of 12.4%, from RM719.0 million in the previous year to RM808.2 million in the current year. This was achieved on the back of 2 main factors: higher non-interest and fee related income and lower loan loss provisions. However, tighter interest margins as well as higher investments into building up the Group's IT systems and infrastructure and improving customer service, partially offset the growth in pre-tax profits.

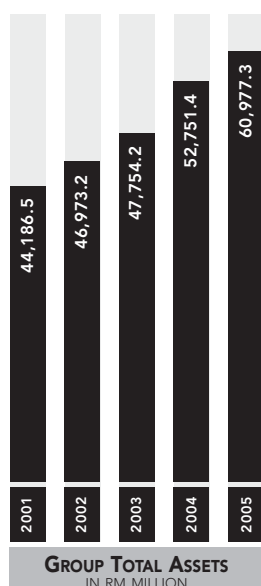
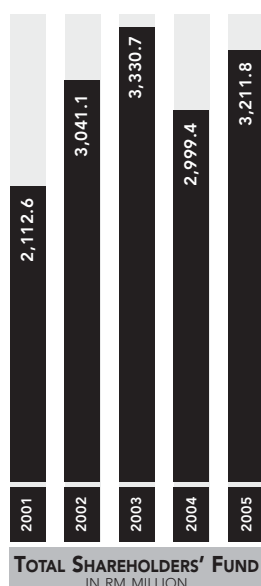
Earnings per share ("EPS") reduced to 36.1 sen from 37.3 sen in the previous year due to a one-off gain recognized in the previous year at HLC Group level as a result of deemed disposal of HLC's interests in Hong Leong Bank Berhad in accordance with MASB 11: Consolidated Financial Statements and Investments in Subsidiaries, from HLB's special share issue to Bumiputra investors.

## Hong Leong Bank Berhad ("HLB") Group

For the financial year ended 30 June 2005, the HLB Group registered a pre-tax profit of RM722.2 million, an increase of RM193.5 million or 37% as compared to RM528.7 million in the last financial year. As such, EPS increased from 24.5 sen to 33.2 sen in the current year.

Non-interest and fee related income recorded a robust growth of 48% in the current year to stand at RM339.6 million. This was attributable to stronger non-interest related income streams in the current year from business banking, treasury, wealth management sales and HLB Singapore branch's corporate finance business. The strong growth in non-interest and fee related income was in line with HLB's income diversification strategy in order to mitigate the margin squeeze on loans, brought about by the intense competition among banks.

Although the cost-income ratio increased to 39.3% in the current year, the HLB Group continues to be one of the most efficient banks in the country. The strong cost discipline was balanced against investments for long-term growth, such as HLB's expansion into Hong Kong as well as infrastructure and channel expansion programmes. The HLB Group further increased marketing spending to grow its customer franchise and brand equity.



# Chairman's statement

(continued)

Loan loss provisions decreased by 55% due mainly to HLB Group's continued emphasis on strong credit risk management, effective collection efforts and prudent lending policies as well as the absence of lumpy provisions. HLB's net NPL ratio (3-month classification) improved from 5.4% in the previous year to 4.5% in the current year.

Total assets grew by RM8.6 billion or 17.5% to stand at RM57.6 billion as at 30 June 2005. This was mainly from higher treasury and money market assets as well as a strong growth in loans. HLB's loans book grew by 11% (net of provisions), driven mainly by a 23% growth in mortgages and 17% in credit cards receivables. This growth was in line with HLB's vision to have a dominant market position in personal financial services, with an emphasis on meeting and exceeding customer expectations whilst striving for profitability and competitiveness.

Shareholders' funds stood at RM4.4 billion and net tangible assets per share grew from RM2.80 to RM2.88. The HLB Group continues to be strongly capitalised with a risk weighted capital ratio of 17.4%, putting the HLB Group in a prime position to pursue further growth opportunities. In addition as part of capital management strategy, the HLB Group has up to 30 June 2005, bought back a total of 51,542,700 shares for RM274.4 million, representing 3.26% of the issued and paid-up capital and are held as Treasury shares.

As a further capital management exercise, HLB issued US\$200 million Subordinated Bonds, due 2015, callable in 2010 with a coupon of 5.25% and a re-offer price of 99.848%. In conjunction with the issue, HLB was rated Baa1, BBB+, and BBB+ by Moody's, Fitch, and Standard & Poor's respectively. The offering attracted strong demand from investors in Asia and Europe, resulting in the offer being 2.5 times oversubscribed.

## Hong Leong Islamic Bank Berhad ("HLIB")

During the financial year, the HLB Group accomplished another critical milestone in its Islamic banking franchise when it was granted an Islamic banking license. Hong Leong Islamic Bank Berhad ("HLIB"), a wholly owned subsidiary of the HLB, was incorporated to undertake Islamic banking business. A Vesting Order was obtained from the High Court of Malaya to transfer the Islamic banking business of HLB to HLIB. With effect from 1 July 2005, HLB conducted its Islamic banking business through HLIB.

The Islamic Banking business of HLB registered a pre-tax profit of RM112 million, an increase of 26.4% over the previous year. Total assets grew by 52.8% to RM5.8 billion, mainly supported by the strong 57.1% growth in the financing portfolio, mainly from HP-i (78.3%) and business financing-i (47.8%).

Funding for the Islamic financing mainly came from the Al-Mudharabah general investment deposits and loan to deposit ratio stood at 71.3% at the end of the current year.

Asset quality improved as gross non-performing financing ("NPF") ratio was reduced to 2.3% from 5.0% in the previous year, and net NPF ratio decreased to 1.6% from 2.9%. The HLB Group's Islamic banking business remained well-capitalised with core capital and risk-weighted capital ratios coming in at 11.7% and 13.3%.

## Hong Leong Assurance Berhad ("HLA") Group

During the financial year, HLA expanded the scope of its insurance business operations to Hong Kong when it acquired the entire equity interest of Dao Heng Insurance Co., Ltd ("DHI"), a licensed general insurance company incorporated in Hong Kong, through its wholly owned subsidiary company, Allstate Health Benefits Sdn Bhd. The acquisition was paid via a cash consideration of RM75 million.

DHI had won numerous awards in Hong Kong for its customer service and well-run call center. DHI is currently a market leader in Hong Kong in selling personal lines insurance using call center technology. HLA aims to leverage on DHI's expertise in this area to enhance HLA's retail business in Malaysia.

For the financial year ended 30 June 2005, the HLA Group recorded a pre-tax profit of RM95.5 million, a decrease of 23% as compared to RM124.1 million in the previous year, whilst profit after tax stood at RM70.7 million, of which DHI contributed RM9.4 million. However, it was worth noting that the HLA Group achieved a financial milestone in the current year when its gross premiums breached the RM1 billion mark.

HLA's Life Division recorded new business amounting to RM224.0 million compared to RM221.2 million in the last financial year. Bancassurance, which grew by 17%, was the main contributor to the growth at 62% of new business. As at 30 June 2005, gross premiums stood at RM656.2 million compared to RM596.7 million in the previous year. However, operating surplus was lower by 12% due to lower return on investments, as compared to last year. Despite the lower operating surplus, actuarial surplus distributable for the year was RM45.0 million, same as the last financial year. Unallocated surplus grew by 11% from RM373 million to RM416 million as at 30 June 2005.



# Chairman's statement

(continued)

HLA's General division registered total gross premiums of RM351.3 million as compared to RM339.2 million in the previous financial year. Net premiums increased from RM219 million to RM230.2 million mainly as a result of increased retention for high quality commercial risks. Underwriting margins continued to register double digits at 11% and underwriting profits stood at RM25 million, which reflected HLA's strong performance as compared to the industry where underwriting margins averaged around 8%. In addition, claims ratio closed for the financial year at 56%, which was also better than the industry's average of about 60%. These were achieved on the back of prudent and responsive underwriting practices and control of management expenses.

## HLG Capital Berhad ("HLG") Group

For the financial year ended 30 June 2005, HLG registered a pre-tax profit of RM16.9 million as compared to a profit of RM30.7 million in the previous financial year. EPS for the financial year amounted to 9.1 sen as compared to 23.9 sen in the previous year.

The Securities business under HLG registered a reduction in profits of RM15.5 million from RM25.5 million to RM10.0 million, due mainly to less favourable stock market conditions in the current year as compared to the previous year. In addition, the securities business also recorded a one-off windfall in the previous year, from Bursa shares received as part of the demutualisation of Bursa Malaysia in 2004. As part of its plan to reinvigorate and enhance the value of its securities arm, HLG is currently implementing various action plans, with a view to transform its securities business. This included setting up a subsidiary, HLG Capital Advisory Sdn Bhd through which it can provide corporate advisory services and enhance its fee based income stream.

The Asset Management and Unit Trust businesses of HLG recorded a profit of RM13.5 million, up RM0.9 million from RM12.6 million in the previous year. The current year has also seen HLG Asset Management and Unit Trust launch two new products, the HLG Dividend Fund and HLG Strategic Fund. The sales of these 2 funds resulted in HLG Unit Trust recording the highest sales in terms of new products in the industry for the first half of 2005.

It was worth noting also that HLG Capital was ranked first in this year's KPMG/The Edge Shareholder Value Awards 2004 in the financial services category.

## HLC Group - An Integrated Financial Services Group

In the previous year, we mentioned that the HLC Group was embarking on a journey towards becoming an integrated financial services Group. Our approach to this was two pronged: business co-operation and product bundling through our "Integrated Sales Organisation ("ISO")" forum and business and operational integration through our "Centres of Excellence ("COE")" concept.

The creation of COE within the Group is an important and integral part in the process to forge synergistic and value proposition leading to a seamless organisation. We have meticulously detailed the groundwork of building up the COE for the Group and efforts are currently being done to put this plan into action. The following are objectives set out for the Centres of Excellence:

- Optimize the utilisation of special knowledge and skill-sets of specific business and support functions within the Group in order to ensure the consistent execution of key deliverables within set targets,
- Leverage on the teams operating in different countries in order to enable seamless deployment of in-house developed products and services at the regional level,
- Leverage on the teams operating within different departments to enable the common deployment of methodologies and processes,
- Enable the teams consolidated within one operating company to deliver responsive, cost-effective services and processes to other respective supported operating companies,
- Increase management focus on best market practices, trends and emerging issues that impacts their respective business/service universe to retain their respective competitive edge/core competencies, and
- Enhance staff retention with the identification and development of staff that possess the necessary technical competencies and leadership potential.

# Chairman's statement

(continued)

Through the use of our Customer Relationship Management systems and working together through the Group's ISO forums, our key operating franchises, namely, banking, insurance, asset management and stockbroking have been building on each other's unique expertise and strengths towards providing personalised financial solutions in order to better meet our customers' needs and requirements.

We are pleased to report that we have made significant progress in achieving this vision of transforming ourselves into a seamless business organisation. The Group is currently embarking on the consolidation of certain operations such as our IT and Data Centres as well as Building Management and has set up regional teams in the areas of Treasury, Investment Banking and Private Banking.

We are confident that our shared vision for the Group, coupled with prudent financial management policies and our firm belief in creating value for both our shareholders and customers will put the HLC Group in a strong position to achieve greater success.

## Prospects

The financial year ahead will be challenging due to various external factors impacting our economy such as the uncertainty of oil prices coupled with the prospect of higher interest rates. Your Board nonetheless believes that the Group will be able to maintain its performance in the coming year through the various initiatives that it had already embarked on to position itself as an integrated financial services group.

## Dividends

The Board of Directors during the financial year under review had declared and paid an interim dividend of 8 sen less tax in December 2004 and a 10 sen tax exempt dividend in June 2005. The Board has decided not to recommend a final dividend for the financial year ended 30 June 2005.

## Appreciation

On behalf of the Board, I would like to extend a warm welcome to Mr Low Teik Leong and Mr Lean Chee Yeow to the Board.

I would also like to take this opportunity to express my heartfelt appreciation and gratitude to the management and staff of HLC for their dedication and commitment.

My sincere appreciation also goes out to our regulators, shareholders, customers and business partners as well as to the community we serve.

QUEK LENG CHAN

Chairman

12 September 2005

# Director's report

for the financial year ended 30 June 2005

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2005.

## Principal activities

The Company is principally an investment holding company.

The principal activities of the subsidiary and associated companies are disclosed in Notes 11 and 12 respectively to the financial statements. There have been no significant changes in activities during the financial year under review.

## Financial results

	The Group RM'000	The Company RM'000
Profit after taxation	581,450	199,612
Minority interest	(206,213)	-
Profit attributable to shareholders	375,237	199,612

## Dividends

The dividends on ordinary shares paid or declared by the Company since the previous financial year ended 30 June 2004 were as follows:

- A first interim dividend of 8 sen per share less income tax, amounting to RM59,945,601 in respect of the financial year ended 30 June 2005 was paid on 28 December 2004.
- A second interim dividend of 10 sen per share tax exempt amounting to RM104,072,224 in respect of the financial year ended 30 June 2005 was paid on 29 June 2005.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2005.

## Significant events during the financial year

- On 1 August 2004, Hong Leong Bank Berhad ("the Bank" or "HLB") had effected its merger with its subsidiary company, Hong Leong Finance Berhad ("HLF") via a transfer of finance company business excluding the leasing business to the Bank. The leasing business of HLF was transferred to Hong Leong Leasing Sdn Bhd on the same day. The scheme of merger was carried out after obtaining Bank Negara Malaysia's ("BNM") approval and Vesting Orders from the High Court of Malaya on 16 July 2004 and 27 July 2004 respectively.
- On 20 November 2004, Visia Nominees Sdn Bhd, an indirect wholly-owned subsidiary company of HLB which was placed under member's voluntary liquidation had been dissolved.
- On 20 December 2004, HLG Capital Berhad ("HLG Capital") had acquired the entire equity interest comprising 2 ordinary shares of RM1.00 each in HLG Capital Advisory Sdn Bhd (formerly known as HLG Nominees Sdn Bhd) from HLG Securities Sdn Bhd, a wholly-owned subsidiary company of HLG Capital, for cash at par.
- On 25 March 2005, the Company had placed Heritage Vest (M) Sdn Bhd, a wholly-owned subsidiary company of the Company, under members' voluntary liquidation.
- On 29 March 2005, HLG Capital had disposed of the entire equity interest comprising 51 million shares in HLG Philippines, Inc to DHG Capital Holdings, Inc ("DHG") for a cash consideration of Peso 141,433,000 (equivalent to RM9,705,000).
- On 6 April 2005, Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary company of Hong Leong Assurance Berhad, had completed the acquisition of Dao Heng Insurance Co., Limited ("DHI") for a cash consideration of HKD152,551,910 (equivalent to RM74,549,360).
- On 28 March 2005, the Bank had incorporated Hong Leong Islamic Bank Berhad ("HLIB"), a wholly-owned subsidiary of the Bank, for the purpose of undertaking the Islamic Banking business pursuant to Subsection 3(4) of the Islamic Banking Act, 1983.

The Bank had, on 28 June 2005, announced that the Minister of Finance had granted an Islamic banking licence to HLIB and a Vesting Order had also been obtained from the High Court of Malaya for the transfer and vesting of the Islamic banking business of HLB to HLIB. Effective 1 July 2005, the Bank had conducted its Islamic banking business through HLIB.

# Director's report

for the financial year ended 30 June 2005 (continued)

## Significant events during the financial year (continued)

- (h) On 6 June 2005, the Bank announced that BNM had no objection to a proposed issuance of United States Dollar Subordinated Debt by the Bank to raise funds to be utilised for general banking and other corporate purposes ("Proposed Issuance"). The Proposed Issuance had been approved by Securities Commission on 22 June 2005.
- (i) On 16 June 2005, the Bank announced that it had entered into a Sale and Purchase Agreement with HLCM Capital Sdn Bhd ("HLCM Capital") to dispose of its 100% equity interest in Credit Corporation (Malaysia) Sdn Bhd comprising two (2) ordinary shares of RM1.00 each to HLCM Capital for cash consideration of RM5,000.00 ("Proposed Disposal"). The Proposed Disposal was completed on 25 August 2005.
- (j) On 17 June 2005, the Company had placed Hong Leong Equities (Hong Kong) Limited, a wholly-owned subsidiary of the Company, under members' voluntary liquidation.

## Significant events subsequent to the balance sheet date

On 3 August 2005, the Bank issued USD200 million in aggregate principal amount of Subordinated Bonds ("the Bonds") due 2015 callable with step-up in 2010. The Bonds bear interest at the rate of 5.25% per annum from, and including 3 August 2005 to, but excluding 3 August 2010 and, thereafter, at a rate per annum equal to the US Treasury Rate plus 2.717%. The interest is payable semi-annually in arrears on 3 February and 3 August each year, commencing on 3 February 2006. The Bonds were issued at a price of 99.848 per cent of the principal amount of the Bonds. The Bonds will, subject to the prior written approval of Bank Negara Malaysia, if required, be redeemable in whole but not in part, at the option of the Bank on 3 August 2010 or in the event of certain changes affecting taxation in Malaysia or any other jurisdiction where the Bank has to pay tax in relation to the Bonds, at their principal amount plus accrued interest.

The Bonds constitute unsecured liabilities of the Bank, and are subordinated in right of payment to the deposit liabilities and all other liabilities of the Bank in accordance with the terms and conditions of the issue and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

## Reserves and provisions

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

## Directors

The Directors in office since the date of the last report are as follows:

YBhg Tan Sri Quek Leng Chan (Executive Chairman)

Mr Tsui King Chung, David (President & Chief Executive Officer)

YBhg Dato' Haji Kamarulzaman bin Mohammed

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman

Dr Poh Soon Sim

YBhg General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali

Ms Yvonne Chia

Mr Lean Chee Yeow (appointed on 8 November 2004)

Mr Low Teik Leong (appointed on 18 March 2005)

Mr Tan Beng Wah (resigned on 14 January 2005)

In accordance with Article 115 of the Company's Articles of Association, YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman and Dr Poh Soon Sim retire by rotation from the Board and being eligible, offer themselves for re-election.

In accordance with Article 94 of the Company's Articles of Association, Mr Lean Chee Yeow and Mr Low Teik Leong retire from the Board and being eligible, offer themselves for re-election.

In accordance with Section 129 of the Companies Act 1965, YBhg Dato' Haji Kamarulzaman bin Mohammed and YBhg General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali retire and being eligible, offer themselves for re-election.

# Director's report

for the financial year ended 30 June 2005 (continued)

## Directors' interests

The Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares/warrants/options/irredeemable convertible unsecured loan stocks in the Company and/or related corporations during the financial year ended 30 June 2005, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 are as follows:

	Shareholdings in which Directors have direct interests				
	Nominal value per share	As at 1-7-2004	Acquired	Sold	As at 30-6-2005
	RM				
<b>Interests of YBhg Tan Sri Quek Leng Chan in:</b>					
Hong Leong Company (Malaysia) Berhad	1.00	390,000	-	-	390,000
Guoco Group Limited	US\$0.50	1,656,325	-	-	1,656,325
GuocoLand Limited	S\$1.00	14,047,224	-	-	14,047,224
Hong Leong Credit Berhad	1.00	11,046,600	-	-	11,046,600
Hong Leong Industries Berhad	0.50	1,268,000	1,244,000	-	2,512,000
		40,000*	-	-	40,000*
Malaysian Pacific Industries Berhad	0.50	53,500	-	-	53,500
Hong Leong Bank Berhad	1.00	40,000	-	-	40,000
Hume Industries (Malaysia) Berhad	1.00	4,034,000	-	-	4,034,000
Narra Industries Berhad	1.00	8,170,200	-	-	8,170,200
<b>Interests of YBhg Dato' Haji Kamarulzaman bin Mohammed in:</b>					
Hong Leong Credit Berhad	1.00	52,200	-	-	52,200
Hong Leong Bank Berhad	1.00	479,000	-	-	479,000
<b>Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:</b>					
Hong Leong Credit Berhad	1.00	5,544,000	-	-	5,544,000
Hong Leong Industries Berhad	0.50	52,800	-	-	52,800
		8,250*	-	-	8,250*
Hong Leong Bank Berhad	1.00	400,000	-	-	400,000
Hume Industries (Malaysia) Berhad	1.00	167,000	-	-	167,000
Malaysian Pacific Industries Berhad	0.50	1,000	-	-	1,000
<b>Interests of Dr Poh Soon Sim in:</b>					
Hong Leong Credit Berhad	1.00	4,237,600	-	3,600	4,234,000
Hume Industries (Malaysia) Berhad	1.00	2,000,000	-	1,094,000	906,000
Narra Industries Berhad	1.00	-	950,500	-	950,500
<b>Interests of YBhg General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali in:</b>					
Hong Leong Bank Berhad	1.00	459,282	-	-	459,282
Hong Leong Credit Berhad	1.00	4,200	-	-	4,200
<b>Interests of Tsui King Chung, David in:</b>					
Hong Leong Bank Berhad	1.00	-	36,000	-	36,000
Guoco Group Limited	US\$0.50	2,000	-	-	2,000
<b>Interest of Ms Yvonne Chia in:</b>					
Hong Leong Bank Berhad	1.00	-	20,000	-	20,000

# Director's report

for the financial year ended 30 June 2005 (continued)

## Directors' interests (continued)

	Nominal value per share	Shareholdings in which Directors have indirect interests Number of ordinary shares/*new shares to be issued arising from the exercise of warrants/options/irredeemable convertible unsecured loan stocks			
		As at 1-7-2004	Acquired	Sold	As at 30-6-2005
	RM				
<b>Interests of YBhg Tan Sri Quek Leng Chan in:</b>					
Hong Leong Company (Malaysia) Berhad	1.00	7,487,100	-	-	7,487,100
Hong Leong Fund Management Sdn Bhd	1.00	1,400,000	-	-	1,400,000
MEHY Sdn Bhd (in members' voluntary liquidation)	1.00	650,000	-	-	650,000
Guoco Group Limited	US\$0.50	218,168,884	1,020,000	327,575	218,861,309
Citywide International Limited	USD1.00	-	9	-	9
GuocoLand Limited	S\$1.00	458,785,229	622,000	-	459,407,229
First Changi Development Pte Ltd	S\$1.00	40,002,075	-	-	40,002,075
First Garden Development Pte Ltd	S\$1.00	72,000,000	-	-	72,000,000
Melville Park Development Pte Ltd	S\$1.00	57,840,000	-	-	57,840,000
Sanctuary Land Pte Ltd	S\$1.00	54,000,000	-	-	54,000,000
Beijing Minghua Property Development Co., Ltd	^	150,000,000	-	-	150,000,000
Beijing Xinhaoyi Property Development Co., Ltd (in members' voluntary liquidation)	^	138,000,000	-	-	138,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	#	19,600,000	-	-	19,600,000
Beijing Jiang Sheng Property Development Co., Ltd	^	-	247,600,000	-	247,600,000
Lam Soon (Hong Kong) Limited	HK\$1.00	140,008,659	-	-	140,008,659
Kwok Wah Hong Flour Company Limited	HK\$100	9,800	-	-	9,800
LS Golden Oils & Fats Limited	HK\$1.00	185,000,000	-	-	185,000,000
M.C. Packaging Offshore Limited	HK\$0.01	471,793	-	-	471,793
Lam Soon Ball Yamamura Inc	NT\$10	23,725,995	5	-	23,726,000
Guangzhou Lam Soon Food Products Limited	Ω	6,570,000	-	-	6,570,000
Shekou Lam Soon Silo Company Limited	#	8,464,500	-	-	8,464,500
Shenzhen Lam Soon Edible Oils Company Limited	#	11,400,000	600,000	-	12,000,000
Hong Leong Credit Berhad	1.00	813,823,554	-	56,256	813,767,298
HLG Capital Berhad	1.00	92,590,545	-	-	92,590,545
Hong Leong Bank Berhad	1.00	951,573,500	2,112,100	-	953,685,600
Hong Leong Industries Berhad	0.50	130,134,500	1,165,400	-	131,299,900
		39,440,435*	-	894,100*	38,546,335*
Hong Leong Yamaha Distributors Sdn Bhd	1.00	10,360,000	-	-	10,360,000
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

# Director's report

for the financial year ended 30 June 2005 (continued)

## Directors' interests (continued)

	Nominal value per share	Shareholdings in which Directors have indirect interests Number of ordinary shares/*new shares to be issued arising from the exercise of warrants/options/irredeemable convertible unsecured loan stocks			
		As at 1-7-2004	Acquired	Sold	As at 30-6-2005
	RM				
<b>Interests of YBhg Tan Sri Quek Leng Chan in (continued):</b>					
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	9,195,270	-	1,379,290@	7,815,980β
Malaysian Pacific Industries Berhad	0.50	113,977,609	123,400	204,200	113,896,809
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
		(Redeemable Preference Shares)			(Redeemable Preference Shares)
Guolene Packaging Industries Berhad (in members' voluntary liquidation)	1.00	69,920,528	3,606	-	69,924,134
Guolene Plastic Films Sdn Bhd	1.00	9,350,002	-	9,350,002	-
Hume Industries (Malaysia) Berhad	1.00	115,605,894	2,950,000	19,466	118,536,428
Narra Industries Berhad	1.00	38,304,000	-	-	38,304,000
Camerlin Group Berhad	1.00	219,866,017◆	19,872,762	-	239,738,779
		2,699,793*◆	1,189,132*	-	3,888,925*
<b>Interests of Dr Poh Soon Sim in:</b>					
Hong Leong Credit Berhad	1.00	874,670	-	-	874,670
Hong Leong Company (Malaysia) Berhad	1.00	207,750	-	-	207,750
Hong Leong Industries Berhad	0.50	26,000	-	-	26,000
Hong Leong Bank Berhad	1.00	88,000	-	-	88,000

### Note:

- ^ Capital contribution in RMB.
- # Capital contribution in USD.
- Ω Capital contribution in HKD.
- @ Cancellation pursuant to capital reduction.
- β Remaining shares held after capital reduction.
- ◆ Shareholding as at 6 April 2005 as the corporation became a related company.

# Director's report

for the financial year ended 30 June 2005 (continued)

## Directors' benefits

Since the end of the previous financial year, no Director of the Company has 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 certain Directors as shown in the financial statements or the fixed salary of a full-time employee 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 acquisition and/or disposal of stocks and 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.

There were no arrangement during and at the end of the financial year which had the object of enabling the 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 other than the share options granted pursuant to the Executive Share Option Scheme.

## Executive Share Option Scheme ("ESOS" or "Scheme")

The shareholders of the Company had approved the implementation of the Scheme at the Extraordinary General Meeting held on 15 December 1999. On 1 November 2002, the shareholders of the Company had approved a proposal to extend the duration of the Scheme for an additional period of five (5) years from 24 December 2004 up to and including 24 December 2009 and to amend the Bye-Laws of the Scheme to inter alia incorporate revisions to Securities Commission Guidelines in relation to employee share option scheme, introduce new performance criteria as a basis for prime value options to key executives and provide flexibility to the Company to issue new shares and/or transfer existing shares to option holders upon the exercise of their options.

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

1. Eligible executives are those executives (including full time executive directors) of the Group who have been confirmed in service on the date of offer. The maximum allowable allotments for the full time executive directors had been approved by the shareholders of the Company in a general meeting.
2. The aggregate number of shares to be issued under the ESOS shall not exceed 10% of the total 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 24 December 1999.
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 of RM1.00.
5. An option holder may, in a particular year, exercise up to such maximum number of shares in the option certificate as determined by the Board of Directors or as specified in the option certificate.
6. The option granted to the eligible executives will lapse when they are no longer in employment of the Group.

The movements during the financial year in the number of options over the shares of the Company are as follows:

	No. of options over ordinary shares of RM1.00 each			
	As at 1-7-2004	Options lapsed on expiry date ie 24-12-2004	Options exercised	As at 30-6-2005
Option price of RM2.65	763,020	(33,084)	(729,936)	-
Option price of RM2.96	49,940	(60)	(49,880)	-
Option price of RM4.43	522,434	(508,784)	(13,650)	-
	1,335,394	(541,928)	(793,466)	-

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



# Director's report

for the financial year ended 30 June 2005 (continued)

## Executive Share Option Scheme ("ESOS" or "Scheme") (continued)

The 793,466 options exercised during the financial year were satisfied by way of the transfer of shares from the Trustee's Account under the ESOS to the option holders.

## 1997/2007 Warrants

The 1997/2007 Warrants were constituted by a Deed Poll dated 25 June 1997. Each 1997/2007 Warrant gives the registered holder at any time within the exercise period i.e. 27 June 1997 to 27 June 2007 (both dates inclusive) the right to subscribe for one (1) new ordinary share of RM1.00 each in the Company at the exercise price.

As at 30 June 2005, the number of 1997/2007 Warrants outstanding and unexercised was 12,338,534. The exercise price for the 1997/2007 warrants is RM4.82.

## Share capital

During the financial year, there was no issuance of new ordinary shares.

As at 30 June 2005, the issued and fully paid-up share capital of the Company is RM1,040,722,242 comprising 1,040,722,242 ordinary shares of RM1.00 each.

## Other statutory information regarding the Group and the Company

### (I) As at the end of the financial year

- (a) Before the income statements and balance sheets of the Group and the Company were made out, the Directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of provision for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate provision had been made for doubtful debts and financing; and
  - (ii) to ensure that any current assets, other than debts and financing, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of the operations of the Group and the Company during the financial year had not been substantially affected by any item, transaction or event of a material and unusual nature.

### (II) From the end of the financial year to the date of this report

- (a) The Directors are not aware of any circumstances:
  - (i) which would render the amount written off for bad debts and financing or the amount of the provision for doubtful debts and financing inadequate to any material extent;
  - (ii) which would render the values attributed to current assets in the financial statements misleading; and
  - (iii) which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.

# Director's report

for the financial year ended 30 June 2005 (continued)

## Other statutory information regarding the Group and the Company (continued)

### (II) From the end of the financial year to the date of this report (continued)

(b) In the opinion of the Directors:

- (i) the results of the operations of the Group and the Company for the financial year ended 30 June 2005 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Company to meet their obligations as and when they fall due.

### (III) As at the date of this report

- (a) There are no charges on the assets of the Group and the Company which had arisen since the end of the financial year to secure the liabilities of any other person.
- (b) There are no contingent liabilities which had arisen since the end of the financial year.
- (c) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

## Ultimate holding company

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

## Auditors

The auditors, Messrs PricewaterhouseCoopers, have expressed their willingness to continue in office.

On behalf of the Board

Tsui King Chung, David

Yvonne Chia

Kuala Lumpur

30 August 2005

# Balance sheets

as at 30 June 2005

	Note	The Group		The Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Assets</b>					
Cash and short term funds	3	11,580,037	14,949,903	21,023	4,833
Securities purchased under resale agreements		9,928,492	-	-	-
Deposits and placements with financial institution	4	3,647,037	3,164,153	-	-
Dealing securities	5	2,890,344	2,616,223	-	-
Investments	6	4,605,744	5,534,850	-	-
Loans, advances and financing	7	25,941,803	23,271,945	-	-
Trade receivables	8	189,279	206,069	-	-
Other receivables	9	403,990	1,425,269	6,991	32,364
Statutory deposits with Bank Negara Malaysia	10	839,600	691,988	-	-
Tax recoverable		21,030	39,384	14,330	20,576
Investment in subsidiary companies	11	-	-	2,047,233	2,033,439
Investment in associated companies	12	-	1,967	-	-
Deferred tax asset	13	116,964	143,819	-	-
Property, plant and equipment	14	341,559	324,886	1,523	885
Goodwill arising on consolidation	15	471,383	380,985	-	-
<b>Total assets</b>		<b>60,977,262</b>	<b>52,751,441</b>	<b>2,091,100</b>	<b>2,092,097</b>
<b>Liabilities</b>					
Deposits from customers	16	39,722,456	37,783,993	-	-
Deposits and placements of banks and other financial institutions	17	2,066,162	1,451,519	-	-
Obligations on securities sold under repurchase agreements		8,612,248	3,594,893	-	-
Floating rate certificates of deposits	18	417,916	-	-	-
Bills and acceptances payable		568,895	1,248,309	-	-
Payables and other liabilities	19	978,301	510,502	10,800	9,689
Provision for claims		161,339	146,265	-	-
Provision for taxation		44,406	82,350	-	-
Bank loans and overdrafts	20	201,000	216,800	161,000	167,800
Long term liabilities	21	269,098	300,000	269,098	300,000
Insurance funds	22	3,037,237	2,633,301	-	-
<b>Total liabilities</b>		<b>56,079,058</b>	<b>47,967,932</b>	<b>440,898</b>	<b>477,489</b>
Share capital	23	1,040,722	1,040,722	1,040,722	1,040,722
Reserves	24	2,171,047	1,958,675	609,480	573,886
<b>Shareholders' funds</b>		<b>3,211,769</b>	<b>2,999,397</b>	<b>1,650,202</b>	<b>1,614,608</b>
<b>Minority interest</b>		<b>1,686,435</b>	<b>1,784,112</b>	<b>-</b>	<b>-</b>
		<b>4,898,204</b>	<b>4,783,509</b>	<b>1,650,202</b>	<b>1,614,608</b>
<b>Total liabilities and shareholders' funds</b>		<b>60,977,262</b>	<b>52,751,441</b>	<b>2,091,100</b>	<b>2,092,097</b>
<b>Commitments and contingencies</b>	32	<b>38,398,210</b>	<b>20,250,802</b>	<b>-</b>	<b>-</b>

The notes on pages 34 to 95 form part of the financial statements.

# Income statements

for the financial year ended 30 June 2005

	Note	The Group		The Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Revenue</b>	25	<b>2,654,027</b>	2,539,628	<b>306,555</b>	436,289
Direct cost		<b>(1,480,870)</b>	(1,285,366)	-	-
<b>Gross operating profit</b>		<b>1,173,157</b>	1,254,262	<b>306,555</b>	436,289
Other operating income		<b>501,038</b>	387,393	<b>307</b>	95
Selling and marketing costs		<b>(67,526)</b>	(39,487)	-	-
Administration expenses		<b>(104,098)</b>	(105,349)	<b>(1,217)</b>	(1,706)
Personnel costs	26	<b>(350,199)</b>	(311,993)	<b>(3,411)</b>	(4,999)
Other operating expenses		<b>(152,633)</b>	(123,783)	<b>(835)</b>	(771)
Loan loss and other provisions		<b>(166,106)</b>	(372,425)	-	(4,988)
Gain on deemed disposal of interest in subsidiary company		-	103,212	-	-
Loss on disposal of associated company		-	(39,267)	-	(16,283)
<b>Profit from operations</b>		<b>833,633</b>	752,563	<b>301,399</b>	407,637
Finance costs		<b>(25,400)</b>	(33,610)	<b>(23,164)</b>	(31,085)
		<b>808,233</b>	718,953	<b>278,235</b>	376,552
Share of results of associated companies		<b>(61)</b>	87	-	-
<b>Profit before taxation</b>	27	<b>808,172</b>	719,040	<b>278,235</b>	376,552
Taxation	29	<b>(226,722)</b>	(172,648)	<b>(78,623)</b>	(62,336)
Share of tax of associated companies		-	(392)	-	-
<b>Profit after taxation</b>		<b>581,450</b>	546,000	<b>199,612</b>	314,216
Minority interest		<b>(206,213)</b>	(157,533)	-	-
Profit attributable to shareholders		<b>375,237</b>	388,467	<b>199,612</b>	314,216
Basic earnings per share (sen)	30	<b>36.1</b>	37.3	<b>19.2</b>	30.2
Diluted earnings per share (sen)	30	<b>36.1</b>	37.3	<b>19.2</b>	30.2
Dividends per share (sen)					
- First interim dividend of 8 sen less income tax (2004: 6 sen less income tax)		<b>5.8</b>	4.3	<b>5.8</b>	4.3
- Second interim dividend of 10 sen tax exempt (2004: 7 sen tax exempt)		<b>10.0</b>	7.0	<b>10.0</b>	7.0
Total dividends per share (sen)	31	<b>15.8</b>	11.3	<b>15.8</b>	11.3

The notes on pages 34 to 95 form part of the financial statements.

# Statements of changes in equity

for the financial year ended 30 June 2005

The Group	Note	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Other capital reserve RM'000	Exchange fluctuation reserve RM'000	Retained profit RM'000	Total RM'000
At 1 July 2004		1,040,722	71,216	1,018,783	87,317	25,073	756,286	2,999,397
Net gain not recognised in the income statement - currency translation differences		-	-	-	-	1,153	-	1,153
Profit attributable to shareholders		-	-	-	-	-	375,237	375,237
Dividends paid:								
- 1st interim dividend	31	-	-	-	-	-	(59,946)	(59,946)
- 2nd interim dividend	31	-	-	-	-	-	(104,072)	(104,072)
Transfer from statutory reserve		-	-	(147,970)	-	-	147,970	-
Realisation of merger reserve due to capital reduction exercise of HLF		-	-	-	45,941	-	(45,941)	-
<b>At 30 June 2005</b>		<b>1,040,722</b>	<b>71,216</b>	<b>870,813</b>	<b>133,258</b>	<b>26,226</b>	<b>1,069,534</b>	<b>3,211,769</b>
At 1 July 2003		1,039,988	450,962	963,183	87,317	25,477	763,781	3,330,708
Net loss not recognised in the income statement - currency translation differences		-	-	-	-	(404)	-	(404)
Profit attributable to shareholders		-	-	-	-	-	388,467	388,467
Dividends paid:								
- 1st interim dividend	31	-	-	-	-	-	(44,945)	(44,945)
- 2nd interim dividend	31	-	-	-	-	-	(72,851)	(72,851)
Transfer to statutory reserve		-	-	55,600	-	-	(55,600)	-
Issue of shares:								
- Issued upon exercise of share options		734	1,237	-	-	-	-	1,971
- Underprovision of share issue cost in respect of prior year		-	(25)	-	-	-	-	(25)
Effect due to capital distribution of associated company		-	(380,958)	-	-	-	(222,566)	(603,524)
<b>At 30 June 2004</b>		<b>1,040,722</b>	<b>71,216</b>	<b>1,018,783</b>	<b>87,317</b>	<b>25,073</b>	<b>756,286</b>	<b>2,999,397</b>

The notes on pages 34 to 95 form part of the financial statements.

# Statements of changes in equity

for the financial year ended 30 June 2005 (continued)

The Company	Note	Share capital RM'000	Share premium RM'000	Capital reserve RM'000	Retained profit RM'000	Total RM'000
<b>At 1 July 2004</b>		<b>1,040,722</b>	<b>71,216</b>	<b>18,484</b>	<b>484,186</b>	<b>1,614,608</b>
Profit attributable to shareholders		-	-	-	199,612	199,612
Dividends paid:						
- 1st interim dividend	31	-	-	-	(59,946)	(59,946)
- 2nd interim dividend	31	-	-	-	(104,072)	(104,072)
<b>At 30 June 2005</b>		<b>1,040,722</b>	<b>71,216</b>	<b>18,484</b>	<b>519,780</b>	<b>1,650,202</b>
At 1 July 2003		1,039,988	450,962	18,484	287,766	1,797,200
Profit attributable to shareholders		-	-	-	314,216	314,216
Dividends paid:						
- 1st interim dividend	31	-	-	-	(44,945)	(44,945)
- 2nd interim dividend	31	-	-	-	(72,851)	(72,851)
Issue of shares:						
- Issued upon exercise of share options		734	1,237	-	-	1,971
- Underprovision of share issue cost in respect of prior year		-	(25)	-	-	(25)
Effect due to capital distribution of associated company		-	(380,958)	-	-	(380,958)
<b>At 30 June 2004</b>		<b>1,040,722</b>	<b>71,216</b>	<b>18,484</b>	<b>484,186</b>	<b>1,614,608</b>

The notes on pages 34 to 95 form part of the financial statements.

# Consolidated cash flow statements

for the financial year ended 30 June 2005

	Note	The Group	
		2005 RM'000	2004 RM'000
<b>Cash flow from operating activities</b>			
Profit before taxation		808,172	719,040
Adjustments for:			
Unearned premium reserves		6,527	4,372
Life fund			
- underwriting surplus		439,657	500,008
Depreciation of property, plant and equipment		66,552	54,670
Finance cost		25,400	33,610
Interest income		(2,613)	(4,772)
Investment income		(219,839)	(103,714)
Gain on sale of property, plant and equipment		(1,908)	(1,535)
Gain on sale of investments		(40,519)	(5,380)
Property, plant and equipment written off		8	1,977
Share of results of associated companies		61	(87)
Amortisation of goodwill arising on consolidation		475	323
Goodwill written off		-	562
Loan loss and other provisions		166,106	372,425
Provision for interest-in-suspense/income-in-suspense		126,137	132,407
Provision for diminution in value of investments		12,554	-
Unrealised foreign exchange (gain)/ loss		(17,763)	4,325
Gain due to exercise of ESOS in subsidiary company		-	(1,078)
Gain from receipt of shares in Bursa Malaysia Berhad		-	(6,227)
(Gain)/Loss on disposal of subsidiary and associated companies		(5)	39,267
Accretion of discount less amortisation of premium		14,631	14,124
Gain on deemed disposal of interest in subsidiary company		-	(103,212)
Surplus transferred from life business		(45,000)	(45,000)
		<b>530,461</b>	<b>887,065</b>
<b>Operating profit before working capital changes</b>		<b>1,338,633</b>	<b>1,606,105</b>
Decrease in dealing securities and investment securities		515,051	3,203,653
Decrease/(increase) in receivables		1,266,298	(1,125,355)
Increase in loans, advances and financing		(2,962,101)	(988,284)
(Decrease)/increase in statutory deposits with Bank Negara Malaysia		(147,612)	35,492
Increase in deposits and placements with financial institutions		(482,884)	(240,077)
Increase in deposits from customers		1,938,463	1,768,567
Increase in deposits and placements of banks and other financial Institutions		614,643	1,061,266
Increase in floating rate certificates		417,916	-
Decrease in securities purchased under resale agreements		(9,928,492)	-
Increase in payables		4,763,597	1,904,703
Increase in provision for outstanding claims		8,848	1,886
		<b>(3,996,273)</b>	<b>5,621,851</b>

The notes on pages 34 to 95 form part of the financial statements.

# Consolidated cash flow statements

for the financial year ended 30 June 2005 (continued)

	Note	The Group	
		2005 RM'000	2004 RM'000
<b>Cash (used in)/generated from operations</b>		<b>(2,657,640)</b>	7,227,956
Income tax paid		(232,340)	(243,519)
Interest paid		(26,894)	(34,720)
Interest received		3,328	4,576
		<b>(255,906)</b>	(273,663)
<b>Net cash (used in)/generated from operating activities</b>		<b>(2,913,546)</b>	6,954,293
<b>Cash flows from investing activities</b>			
Interest received on investment securities		161,113	93,620
Dividends received from investments		4,975	4,792
Dividends received from associated company		-	-
Proceeds from sale of property, plant and equipment		19,053	17,014
Purchase of property, plant and equipment		(81,941)	(78,248)
Proceeds from disposal of associated companies	41	9,687	21,848
Acquisition of new subsidiary company	40	1,628	-
Proceeds from deemed disposal of interest in subsidiary company		-	580,110
Capital repayment from Bursa Malaysia Berhad		3,409	-
<b>Net cash generated from investing activities</b>		<b>117,924</b>	639,136
<b>Cash flows from financing activities</b>			
Purchase/(repayment) of medium term notes and commercial papers		69,000	(32,000)
Net proceeds from issuance of shares		-	1,946
Purchase of treasury shares in subsidiary company		(274,375)	-
Repayment of term loans		(100,000)	(120,000)
Repayment of revolving credit/other bank loans		(15,800)	(104,300)
Dividends paid to			
- shareholders of the Company		(164,018)	(117,796)
- minority shareholders		(107,376)	(155,469)
Net cash used in financing activities		<b>(592,569)</b>	(527,619)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,388,191)</b>	7,065,810
<b>Effects of exchange rate changes</b>		<b>639</b>	868
<b>Cash and cash equivalents at beginning of year</b>		<b>14,944,024</b>	7,877,346
<b>Cash and cash equivalents at end of year</b>		<b>11,556,472</b>	14,944,024
<b>Cash and cash equivalents comprise:</b>			
Cash and short term funds	3	11,580,037	14,949,903
Less: Remisiers' and clients' trust monies		(23,565)	(5,879)
		<b>11,556,472</b>	14,944,024

The notes on pages 34 to 95 form part of the financial statements.



# Cash flow statements

for the financial year ended 30 June 2005

	Note	The Company	
		2005 RM'000	2004 RM'000
<b>Cash flows from operating activities</b>			
Profit before taxation		278,235	376,552
Adjustments for:			
Gain on liquidation of subsidiary company		-	-
Plant and equipment written off		8	-
Provision for diminution in value of investments		-	4,988
Gain on sale of investments		(258)	(69)
Loss on disposal of associated company		-	16,283
Depreciation of property, plant and equipment		343	310
Accretion of discount		98	-
Finance cost		23,164	31,085
Interest income		(2,194)	(3,720)
Investment income		(304,325)	(432,533)
Gain on sale of property, plant and equipment		(49)	(26)
		(283,213)	(383,682)
<b>Operating loss before working capital changes</b>		(4,978)	(7,130)
Decrease in receivables		25,373	1,143
Increase in payables		2,199	1,900
		27,572	3,043
<b>Cash used in operations</b>		22,594	(4,087)
Income tax refund		12,433	11,985
Interest paid		(24,253)	(31,918)
Interest received		2,195	3,718
		(9,625)	(16,215)
<b>Net cash generated from/(used in) operating activities</b>		12,969	(20,302)

The notes on pages 34 to 95 form part of the financial statements.

# Cash flow statements

for the financial year ended 30 June 2005 (continued)

	Note	The Company	
		2005 RM'000	2004 RM'000
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investments		258	102
Proceeds from disposal of associated companies		-	21,848
Dividends received		219,515	346,249
Proceeds from sale of property, plant and equipment		54	135
Purchase of property, plant and equipment		(994)	(15)
Purchase of additional investment in subsidiary company		(13,794)	-
<b>Net cash generated from investing activities</b>		<b>205,039</b>	<b>368,319</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares and replacement warrants		-	1,946
Repayment of term loans		(100,000)	(120,000)
Repayment of revolving credit		(6,800)	(77,300)
Issuance/ (repayment) of medium term notes and commercial papers		69,000	(32,000)
Dividend paid to shareholders of the Company		(164,018)	(117,796)
<b>Net cash used in financing activities</b>		<b>(201,818)</b>	<b>(345,150)</b>
<b>Net increase in cash and cash equivalents</b>		<b>16,190</b>	<b>2,867</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>4,833</b>	<b>1,966</b>
<b>Cash and cash equivalents at end of year</b>		<b>21,023</b>	<b>4,833</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and short term funds	3	21,023	4,833

The notes on pages 34 to 95 form part of the financial statements.

# Notes To The Financial Statements

for the financial year ended 30 June 2005

## 1 Principal activities

The Company is principally an investment holding company.

The principal activities of the subsidiary companies and associated companies are disclosed in Notes 11 and 12 respectively to the financial statements.

There have been no significant changes in activities during the financial year under review.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The address of the registered office of the Company is Level 6, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

## 2 Significant accounting policies

All significant accounting policies set out below have been used consistently in dealing with items which are considered material in relation to the financial statements.

### (a) Basis of accounting

The financial statements of the Group and the Company have been prepared under the historical cost convention unless otherwise indicated, in accordance with the Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia and comply with provisions of the Companies Act, 1965.

### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies made up to the financial year ended 30 June 2005. Inter-company transactions, balances, unrealised gains and losses are eliminated upon consolidation and the consolidated financial statements reflect external transactions only. The Group adopts both the acquisition and merger methods of consolidation.

When the acquisition method is adopted, the excess of the cost of investment over the fair value of the net assets of the subsidiary companies at the date of acquisition is included in the consolidated financial statements as goodwill on consolidation. For subsidiary companies acquired or disposed during the financial year, the results are included from the date of acquisition up to the date of disposal.

Acquisitions of subsidiary companies which have previously met the criteria for merger accounting under the Malaysian Accounting Standard 2, Accounting for Acquisitions and Mergers, are accounted for using merger accounting principles. When the merger method is used, the cost of investment in the Company's book is recorded as the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares transferred is treated as merger reserve/deficit in accordance with the merger relief provisions under Section 60(4) of the Companies Act, 1965.

The current applicable approved accounting standard for business combinations is Financial Reporting Standards ("FRS") No. 122 Business Combinations. As allowed under the standard, the provisions of the standard is applied prospectively, and no retrospective changes have been made. A listing of the Company's subsidiary companies is set out in Note 11 to the financial statements.

### (c) Goodwill

Goodwill arising on consolidation, representing the excess of the cost of investment over the fair value of the net assets of the subsidiary companies acquired, except for one subsidiary group, is carried forward at cost less the previous amounts written off. Goodwill will be written down at such time when the Directors consider there has been a permanent diminution in the value of the investments. The exception is in respect of an immaterial sum of goodwill arising on consolidation of a subsidiary group which is amortised over a period of 20 years.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses (if any). Freehold land and capital work-in-progress are not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of property, plant and equipment on a straight line basis over the expected useful lives of the asset concerned. The principal annual rates used are:

Leasehold land	Over the lease period
Leasehold buildings	Over the remaining period of the lease or 2% whichever is shorter
Freehold buildings	2%
Equipment, furniture and fittings	10% - 33%
Renovation	10% - 20%
Motor vehicles	20% - 25%

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

### (e) Leases

#### Where the Group is the lessee

Lease of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of fair value of the lease assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charge by applying the "rule of 78". The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period. Property, plant and equipment acquired under finance lease are depreciated over the estimated useful life of the assets.

Leases of assets where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases are charged to income statement over the lease period.

#### Where the Group is the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as receivable. The difference between the gross receivables and net present value of the receivables is recognised as unearned income. Lease income is recognised over the term of the lease using the "rule of 78".

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income is recognised on straight line basis over the lease term.

### (f) Investment in subsidiary companies

A subsidiary company is a company in which the Group controls the composition of its board of directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

Investment in subsidiary companies is stated at cost and is written down when the Directors consider that there is impairment in the value of such investments.

### (g) Investment in associated companies

The Group treats those companies as associated companies in which a long term equity interest of between 20 to 50 percent is held and where it exercises significant influence through Board representation.

Investment in associated companies is stated at cost less provision for any permanent diminution in value. The Group's share of the post-acquisition reserves of the associated companies has been accounted for under the equity method. Details relating to the associated companies are given in Note 12 to the financial statements.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (h) Dealing securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term and are stated at the lower of cost and market value. Interest earned whilst holding dealing securities is reported as interest income. Dividends received are included separately in dividend income.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

### (i) Investments held by insurance subsidiary company

Malaysian Government Securities, Cagamas bonds and notes, Danaharta and other Government guaranteed bonds, collectively categorized as government guaranteed low risk assets, quoted and unquoted corporate debenture and bonds are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on a constant yield basis over the period from the date of acquisition to maturity.

Quoted investments are stated at the lower of cost and market value determined on the aggregate basis by category of investments, except that specific allowance is made for any investments which is deemed to have suffered permanent impairment loss. Increase or decrease in the carrying amount of quoted investments are credited or charged to the revenue account.

Unquoted investments are stated at cost less allowance for any permanent impairment loss.

Investment properties held as long term investments are stated at cost less allowance for any impairment loss in value and are not depreciated. Any deficit, if considered to be an impairment loss is charged to the revenue account.

Investments of investment-linked business are stated at the closing market prices as at balance sheet date. Any increase or decrease in value of these investments is taken into the investment-linked business revenue account.

#### **Investment securities held by banking and finance subsidiary companies and others**

Investment securities of the banking and finance subsidiary companies are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking and Financial Institutions Act, 1989, or the solvency margin requirement under Section 46 of the Insurance Act, 1996 and are usually held to maturity.

Malaysian Government securities, Malaysian Government investment certificates, Cagamas bonds, other Government securities and bank guaranteed private debts securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount, where applicable, to maturity date. Other private debt securities are valued at the lower of cost and market value. Other investment securities are stated at cost and provision is made in the event of any permanent diminution in value.

Transfers, if any, between investment and dealing securities are made at the lower of carrying value and market value.

### (j) Provision for bad and doubtful debts and financing for banking and finance subsidiary companies

Specific provisions are made for doubtful debts and financing which have been individually reviewed and specifically identified as bad or doubtful.

A general provision based on a percentage of the loan and financing portfolio is also made to cover possible losses which are not specifically identified.

An uncollectible loan and financing or portion of a loan and financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management there is no prospect of recovery.

The policy on provision for bad and doubtful debts and financing is in general more stringent than that laid down in BNM's "Guidelines on the Classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3".

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (k) Trade and other receivables for securities and other subsidiary companies

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for specific provision for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

General provisions for doubtful debts are made by the stockbroking subsidiary based on a certain percentage of trade receivables (excluding outstanding purchase contracts), net of interest-in-suspense and specific provisions made. The stockbroking subsidiary company classifies its clients' accounts as either performing or non-performing in accordance with the guidelines of Bursa Malaysia Securities Berhad.

### (l) Amounts recoverable from Danaharta

This relates to the loans sold by the banking and finance subsidiary companies to Danaharta where the total consideration is received in two portions; upon the sale of the loans (initial consideration) and upon the recovery of the loans (final consideration). The final consideration amount represents the Group's predetermined share of the surplus over the initial consideration upon recovery of the loans.

The difference between the carrying value of the loans and initial consideration is recognised as "Amounts recoverable from Danaharta" within the "Other receivables" component of the balance sheet. Provisions against these amounts are made to reflect the Directors' assessment of the realisable value of the final consideration as at the balance sheet date. As at 30 June 2005, the amount recoverable from Danaharta has been fully provided.

### (m) Foreclosed properties

Foreclosed properties are stated at the lower of cost and net realisable value.

### (n) Bills and acceptances payable

Bills and acceptances payable represent the banking subsidiary's own bills and acceptances rediscounted and outstanding in the market.

### (o) Derivative financial instruments

#### Trading

The fair value of trading derivative financial instruments is included in the balance sheet and gains and losses on these instruments are taken directly to the income statement.

Foreign exchange and interest rate forwards, futures and forward purchases and sales of securities entered into for trading purposes are valued at prevailing market rates. Gains and losses on interest rate swaps, futures contracts that do not qualify as hedge are recognised in the current year using the mark-to-market method and are included in net profit/(loss) on dealing securities and derivative financial instruments.

#### Hedging

Foreign exchange and interest rate forwards, futures and swaps entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item. To qualify as a hedge, the swap, forward or futures position must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability, firm commitment, or anticipated transaction where there is a high probability of the transaction occurring and the extent, term, and nature of the exposure is capable of being estimated.

Where the hedged item ceases to exist, the corresponding derivative hedge contract is restated at fair value and any resulting unrecognised gains and losses are taken to the income statement.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (p) Repurchase agreements

Securities purchased under resale agreements are securities which the banking and finance subsidiary companies purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligation on securities sold under repurchase agreements are securities which the banking and finance subsidiary companies had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the securities are reflected as a liability on the balance sheet.

### (q) Provisions

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligations, and when a reliable estimate of the amount can be made.

### (r) Amount due to Cagamas Berhad ("Cagamas")

In the normal course of banking operation, the banking and finance subsidiary companies sell loans to Cagamas. The subsidiary companies are liable in respect of the loans sold directly with full recourse to Cagamas under the condition that the subsidiary companies undertake to administer the loans on behalf of Cagamas and to buy back any loans which are regarded as defective. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the balance sheet. Interest income received from the loans and subsequently paid to Cagamas are recognised on a gross basis as "interest income" and "interest expense" in the income statement. The subsidiary companies' treatment on loans sold to Cagamas is in conformity with Bank Negara Malaysia's Circular on "Accounting Treatment for Loans Sold to Cagamas with Recourse". As at 30 June 2005, there is no amount due to Cagamas.

### (s) Unearned premium reserves

Unearned Premium Reserves ("UPR") are calculated for direct and reinsurance inwards business. The UPR represents the portion of the net premium of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year. UPR is calculated based on the total gross premium less deductible reinsurance outwards and permitted deductions as follows:

- (i) 25% method of marine cargo, aviation cargo and transit policies;
- (ii) Time apportionment basis for bonds class;
- (iii) 1/24 method for all other classes of general business, and;
- (iv) 1/8 method for all classes of overseas reinsurance inwards business with a deduction of 20% for acquisition cost;

Under the Insurance Regulations 1996, the permitted deductions are the lower of actual acquisition cost and the maximum permitted deduction of:

- (i) 15% of premium for fire, engineering and marine hull, cargo and aviation;
- (ii) 10% of premium for motor, bonds and foreign workers' compensation scheme; and
- (iii) 25% of the premium for personal accident, liabilities and other general insurance businesses.

### (t) Provision for claims of insurance subsidiary company

#### General

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimates of the expenditure required together with related expenses less recoveries to settle the present obligation at the balance sheet date.

Provision is also made for the cost of claims, together with related expenses, that were incurred but not reported ("IBNR") at balance sheet date, using a mathematical method of estimation.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (t) Provision for claims of insurance subsidiary company (continued)

#### Life

Claims and settlement costs that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

Recoveries on reinsurance claims are accounted for in the same financial year as the original claims are recognised.

Claims and provisions for claims arising on life insurance policies, including settlement costs, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:-

- (a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates.
- (b) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

### (u) Life policyholders' fund

Separate books and accounts are maintained for the Life Insurance Business. The Life policyholders' fund is an amount computed and considered sufficient to provide against liabilities under existing life policies of the insurance subsidiary company.

The last statutory actuarial valuation of the Life policyholders' fund was at 30 June 2005, details of which are disclosed in Note 22 to the financial statements.

### (v) Employee benefits

#### Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Company.

#### Defined contribution plans

A defined contribution plan is a pension plan under which the Group and the Company pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group and the Company contribute to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group and the Company has no further payment obligations.

#### Equity compensation benefits

The Group and the Company do not make a charge to the income statement when share options are granted to Directors and employees. When the share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

### (w) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences are disclosed in Note 13 to the financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (x) Revenue

Revenue of the Company represents dividend income, management fee from subsidiary companies and interest income.

Revenue of the Group includes the following:

- interest income from hire purchase, leasing, factoring, block discounting, loans and advances and deposits, investment and dealing securities, mezzanine financing and money lending;
- dividend income;
- general insurance premium;
- shares, futures and options broking income;
- fund management and advisory fees; and
- rental income from property stocks leased out.

### (y) Revenue and other operating income recognition

#### (i) Banking and finance business

Interest income is recognised on an accrual basis. Interest income on housing and term loan is recognised by reference to rest periods which are either daily, monthly or yearly. The "rule of 78" method is applied in respect of income earned on hire purchase, block discounting and leasing.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for three months or more for loans and overdrafts and after three months from maturity date for trade bills, bankers' acceptances and trust receipts.

The policy on suspension of interest is in general more stringent than that laid down in Bank Negara Malaysia's "Guidelines on the Classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3".

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Commitment fees and guarantee fees which are material are recognised as income based on time apportionment. Service charges and other fee income are recognised as income when the services are rendered.

Dividends from dealing securities, and investment securities and subsidiary companies are recognised when the rights to receive payment is established. Dividend income from Malaysian Government investment certificates invested for the purpose of Islamic Banking business is recognised on a basis consistent with the principles of Shariah.

Net profit from dealing and investment securities are recognised upon disposal of the securities, as the difference between net disposal proceeds and the carrying amount of the securities.

#### (ii) Insurance business

##### Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period. Inward treaty reinsurance premium is recognised on the basis of periodic advices received from ceding insurers.

##### Transfer of Life fund surplus to shareholders' fund

The surplus transferable from Life fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders made in accordance with the provisions of the Insurance Act 1996 and related regulations by the Company's appointed actuary.

##### Commission and agency expenses

Commission and agency expenses, which costs directly incurred in securing premium on insurance policies, net of income derived from reinsurers in the course of ceding of premium to reinsurers, are charged to the revenue account in the period in which they are incurred.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (y) Revenue recognition (continued)

#### (iii) Stockbroking business

Net brokerage income, margin income, rollover fees, nominees service and handling charges are recognised on an accrual basis.

Interest income from mezzanine financing and money lending is recognised on an accrual basis. Where an account is classified as non-performing, interest is credited to the interest-in-suspense account and shall be reversed when realised on a cash basis; except for margin accounts where interest is suspended until the account is reclassified as performing. The suspension of interest income of the stockbroking subsidiary company is made in accordance with the guidelines of Bursa Malaysia Securities Berhad.

#### (iv) Others

##### Dividend income

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

##### Rental income

Rental income is recognised on an accrual basis, except where default in payment of rent has already occurred, and rent due remains outstanding for over six months in which case recognition of rental income is suspended. Subsequent to suspension income is recognised on receipt basis until all arrears have been paid.

##### Interest income

Interest income is recognised on a time proportion basis that takes into account the constant yield of the assets.

### (z) Direct cost

Direct cost of the Group includes the following:

- interest expense from deposits from customers, deposits and placements of banks and other financial institutions, and others from banking and finance subsidiary companies; and
- reinsurance cost arising from insurance subsidiary company.

### (aa) Translation of foreign currencies

Transaction in foreign currencies are translated at rates prevailing on transaction dates. Individual foreign currency assets and liabilities are stated in the balance sheet at spot rates of exchange which closely approximate those ruling at the balance sheet date. All exchange gains and losses are recognised in the income statement in the year they arise other than transactions entered into for hedging purposes, if any.

The results of foreign branches and foreign subsidiary companies for the year are translated into Ringgit Malaysia at average exchange rates for the year and the balance sheets are translated at the rates of exchange ruling at the balance sheet date. Gains or losses arising on translation into Ringgit Malaysia are taken to an exchange fluctuation reserve.

The closing rates used in translation are as follows:

	2005	2004
US Dollar	3.80	3.80
Hong Kong Dollar	0.49	0.49
Singapore Dollar	2.26	2.21
Euro	4.59	4.60
Philippines Peso	0.07	0.07

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 2 Significant accounting policies (continued)

### (ab) Cash and cash equivalents

Cash and cash equivalents are cash and short terms funds held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value, net of monies held in trust for clients and remisiers.

### (ac) Impairment of assets

The carrying amounts of the assets are assessed at each balance sheet date whether there is any indication that the assets may be impaired. If any such indications exist, the recoverable amounts of the assets are estimated.

The recoverable amount is the higher of the asset's net selling price and its value in use. In assessing the value in use, estimated cash flows are discounted to their present values using a discount rate that reflects current market assessment of the time value of money and the risk specific to the asset. An impairment loss is recognised in the income statement immediately when the carrying amount of the asset exceeds its recoverable amount.

### (ad) Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which they give rise to income.

### (ae) Reinsurance

Reinsurance premiums, commissions and related expenses are accounted for in the same period as the original policies to which the reinsurance relates.

### (af) Profit equalisation reserve ("PER")

In relation to Islamic Banking, PER is a mechanism to reduce the fluctuations in the profit rates payable to the depositors. It is provided based on the framework of the Rate of Return issued by Bank Negara Malaysia. The amount of PER is appropriated from and written back to the total gross income. The PER is shared by both the depositors and the Bank and is reflected under other liabilities of the Group and the Bank.

## 3 Cash and short term funds

These comprise:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and balances with banks and other financial institutions	523,965	635,578	823	733
Money at call and deposit placements maturing within one month	11,056,072	14,314,325	20,200	4,100
	<b>11,580,037</b>	14,949,903	<b>21,023</b>	4,833

Included in cash and short term funds of the Group are trust accounts maintained by the stockbroking subsidiary company in trust for clients' and dealers' representatives amounting to RM23,565,000 (2004: RM5,879,000).

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 4 Deposits and placements with financial institutions

These comprise deposits with the following institutions:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Bank Negara Malaysia ("BNM")	3,378,987	2,716,100	-	-
Licensed banks	193,178	105,553	-	-
Licensed finance companies	74,872	168,305	-	-
Other financial institutions	-	174,195	-	-
	<b>3,647,037</b>	<b>3,164,153</b>	<b>-</b>	<b>-</b>

## 5 Dealing securities

	The Group	
	2005 RM'000	2004 RM'000
<b>Money market instruments:</b>		
BNM bills	1,421	139
Malaysian Government treasury bills	9,738	12,296
Malaysian Government securities	15,549	51,623
Other Government securities	98,018	-
Cagamas bonds	206,525	19,991
Bankers' acceptances and Islamic accepted bills	538,530	1,858
Negotiable instruments of deposit	1,670,100	2,191,593
<b>Quoted securities:</b>		
Shares quoted in Malaysia	237,318	243,219
Warrants/Transferable Subscription Rights ("TSR") quoted in Malaysia	-	8,972
Loan stocks quoted in Malaysia	7,200	9,060
Unit trusts investments	11,479	-
Manager's stock	7,283	3,767
Shares quoted outside Malaysia	919	-
Foreign currency bonds	1,894	-
<b>Unquoted securities:</b>		
Private debt securities	84,370	73,705
	<b>2,890,344</b>	<b>2,616,223</b>

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 5 Dealing securities (continued)

	The Group	
	2005 RM'000	2004 RM'000
<b>Market value of quoted securities:</b>		
Malaysian Government securities	15,549	51,710
Other Government securities	98,081	-
Cagamas bonds	206,632	20,005
Shares quoted in Malaysia	253,685	269,490
Warrants/TSR quoted in Malaysia	-	9,284
Loan stocks quoted in Malaysia	7,200	9,060
Unit trusts investments	12,578	4,104
Shares quoted outside Malaysia	919	-
Foreign currency bonds	2,116	-

## 6 Investments

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Money market instruments:</b>				
Malaysian Government securities	439,840	1,772,948	-	-
Malaysian Government investment certificates	238,912	244,112	-	-
Other Government securities	304,205	339,982	-	-
Cagamas bonds	1,444,070	1,683,968	-	-
Khazanah bonds	9,027	9,027	-	-
Danaharta bonds	-	56,254	-	-
Negotiable instruments of deposit	6,094	5,704	-	-
<b>Quoted securities:</b>				
Shares quoted in Malaysia	39,350	39,208	-	-
Loans stocks quoted in Malaysia	33,743	49,296	-	-
Warrants quoted in Malaysia	3,152	13,451	3,152	13,451
Private and Islamic debt securities	14,500	14,500	-	-
Shares quoted outside Malaysia	526	529	-	-
Foreign currency bonds	852,311	352,547	-	-
<b>Unquoted securities:</b>				
Shares	41,478	47,454	-	-
Loan stocks	16,789	41,405	-	-
Private and Islamic debt securities	1,048,003	758,420	-	-
Unit in investment-linked fund	5,000	5,000	-	-

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 6 Investments (continued)

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Investment properties:</b>				
Leasehold condominium and apartment lots	60	5,016	-	-
Leasehold land and building	2,690	2,690	-	-
Freehold land and building	187,621	187,621	-	-
	<b>4,687,371</b>	5,629,132	<b>3,152</b>	13,451
<b>Add/(less):</b>				
Accretion of discount less amortisation of premium	(903)	(3,720)	-	-
Provision for diminution in value	(80,410)	(89,949)	(3,152)	(13,451)
Impairment loss of investment properties	(314)	(613)	-	-
	<b>4,605,744</b>	5,534,850	-	-
<b>Market value of quoted securities:</b>				
Malaysian Government securities	435,415	1,760,380	-	-
Other Government securities	304,711	338,411	-	-
Cagamas bonds	1,455,723	1,681,395	-	-
Khazanah bonds	9,655	9,291	-	-
Shares quoted in Malaysia	28,955	35,860	-	-
Loan stocks quoted in Malaysia	16,760	46,111	-	-
Warrants/TSR quoted in Malaysia	33	701	33	701
Shares quoted outside Malaysia	314	523	-	-
Quoted foreign currency bonds	837,825	350,772	-	-
Quoted private and Islamic debt securities	14,645	13,850	-	-

The impairment of investment properties' value was arrived at as follows:

	2005		Insurance subsidiary		2004	
	Shareholders' fund RM'000	Life fund RM'000	Shareholders' fund RM'000	Life fund RM'000	Shareholders' fund RM'000	Life fund RM'000
<b>Investment properties:</b>						
Carrying value	-	1,944	1,566	3,450		
Less:						
Estimated net realisable value	-	(1,630)	(1,368)	(3,035)		
Impairment value	-	314	198	415		

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 7 Loans, advances and financing

	The Group	
	2005 RM'000	2004 RM'000
Overdrafts	3,142,456	3,266,230
Term loans	14,737,496	12,814,302
Hire purchases	6,464,138	6,543,448
Lease receivables	10,139	35,610
Credit card receivables	945,210	807,095
Bills receivable	539,443	692,352
Trust receipts	192,550	244,136
Policy and premium loans	358,943	301,397
Claims on customer under acceptance credits	2,002,016	1,714,589
Staff loans	129,360	129,118
Other loans	6,608	9,536
	<b>28,528,359</b>	26,557,813
Less:		
Unearned interest and income	(1,323,989)	(1,409,814)
Gross loans, advances and financing	<b>27,204,370</b>	25,147,999
Less:		
Provision for bad and doubtful debts and financing		
- specific	(465,254)	(868,043)
- general	(412,877)	(366,955)
Interest-in-suspense/income-in-suspense	(384,436)	(641,056)
Net loans, advances and financing	<b>25,941,803</b>	23,271,945
The maturity structure of loans, advances and financing is as follows:		
<b>Maturity within:</b>		
One year	9,092,559	9,077,489
One year to three years	2,143,480	2,487,819
Three years to five years	2,960,456	3,654,207
Over five years	13,007,875	9,928,484
	<b>27,204,370</b>	25,147,999

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 8 Trade receivables

	The Group	
	2005 RM'000	2004 RM'000
Trade receivables	751,432	728,021
Less:		
Provision for doubtful debts and interest-in-suspense	(562,153)	(521,952)
	<b>189,279</b>	206,069

## 9 Other receivables

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Foreclosed properties	3,159	3,480	-	-
Special deposit with BNM	-	972,810	-	-
Interest receivable	162,327	93,992	1	2
Amount due from:				
- subsidiary companies	-	-	6,217	31,439
- associated company	-	11,408	-	-
- other related companies	5,428	1,889	503	610
Other receivables, deposits and prepayments	233,076	341,871	270	313
Less: Provision for doubtful debts	-	(181)	-	-
	<b>403,990</b>	1,425,269	<b>6,991</b>	32,364

The special deposit with BNM was non-interest bearing and has matured in June 2005.

## 10 Statutory deposits with Bank Negara Malaysia ("BNM")

The non-interest bearing statutory deposits are maintained by the banking and finance subsidiary companies with BNM in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994), the amount of which is determined at set percentages of total eligible liabilities.



# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 11 Investment in subsidiary companies

	The Company	
	2005 RM'000	2004 RM'000
<b>Subsidiary companies</b>		
Unquoted shares at cost	271,994	271,994
Shares quoted in Malaysia at cost	1,775,239	1,761,445
	<b>2,047,233</b>	2,033,439
<b>Market value:</b>		
Shares quoted in Malaysia	<b>5,013,921</b>	4,693,030

The subsidiary companies of the Company are:

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2005 %	2004 %	
Hong Leong Assurance Berhad* and its subsidiary company:	Malaysia	100.00	100.00	Life and general insurance business
Allstate Health Benefits Sdn Bhd* and its subsidiary company:	Malaysia	100.00	100.00	Investment holding
Dao Heng Insurance Co., Limited*	Hong Kong	100.00	-	General insurance business including statutory insurance (eg. Employees' compensation) and the acceptance of reinsurance in Hong Kong
Hong Leong Equities Sdn Bhd*	Malaysia	100.00	100.00	Investment in stocks, shares and other securities
Hong Leong Equities (Hong Kong) Limited*	Hong Kong	100.00	100.00	In members' voluntary liquidation
Raikon Building Management Co. Sdn Bhd (formerly known as Raikon Holdings Sdn Bhd)	Malaysia	100.00	100.00	Dormant
Heritage Vest (M) Sdn Bhd* and its subsidiary company:	Malaysia	100.00	100.00	In member's voluntary liquidation
AutoWeb Sdn Bhd*	Malaysia	100.00	100.00	Information technology and internet related business
HLC Management Co Sdn Bhd*	Malaysia	100.00	100.00	Provision of management services
HLG Capital Berhad* and its subsidiary companies:	Malaysia	75.00	75.00	Investment holding
HLG Asset Management Sdn Bhd*	Malaysia	75.00	75.00	Fund Management

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 11 Investment in subsidiary companies (continued)

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2005 %	2004 %	
HLG Securities Sdn Bhd* and its subsidiary companies:	Malaysia	75.00	75.00	Stock and securities broking
HLG Nominee (Tempatan) Sdn Bhd*	Malaysia	75.00	75.00	Agent and nominee for Malaysian clients
HLG Nominee (Asing) Sdn Bhd*	Malaysia	75.00	75.00	Agent and nominee for foreign clients
HLG Capital Advisory Sdn Bhd (formerly known as HLG Nominees Sdn Bhd)	Malaysia	75.00	75.00	Investment advisory services
HLG Capital Markets Sdn Bhd* and its subsidiary company:	Malaysia	75.00	75.00	Corporate advisory services, mezzanine financing and money lending
HLG Credit Sdn Bhd*	Malaysia	75.00	75.00	Money lending
HLG Futures Sdn Bhd*	Malaysia	75.00	75.00	Dormant
HLG Philippines, Inc*	The Republic of Philippines	-	75.00	Investment holding
HLGeBiz Sdn Bhd*	Malaysia	75.00	75.00	Dormant
HLG Unit Trust Bhd*	Malaysia	75.00	75.00	Sales of unit trust and management of unit trust fund
Hong Leong Bank Berhad its subsidiary companies:	Malaysia	62.25	60.22	A licensed bank and finance company
Hong Leong Islamic Bank Berhad	Malaysia	62.25	-	Islamic banking business
Hong Leong Finance Berhad*# and its subsidiary companies:	Malaysia	62.25	60.22	Dormant
HLF Credit (Perak) Bhd*	Malaysia	62.25	60.22	Property investment holding
Pelita Terang Sdn Bhd*	Malaysia	62.25	60.22	Dormant
Visia Nominees Sdn Bhd*	Malaysia	-	60.22	Dissolved by member's voluntary liquidation
Hong Leong Leasing Sdn Bhd*	Malaysia	62.25	60.22	Money lending and leasing business
HL Leasing Sdn Bhd	Malaysia	62.25	60.22	Dormant
HLB Realty Sdn Bhd	Malaysia	62.25	60.22	Real property investment
HLB Nominees (Tempatan) Sdn Bhd	Malaysia	62.25	60.22	Agent and nominee for Malaysian clients

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 11 Investment in subsidiary companies (continued)

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2005 %	2004 %	
HLB Nominees (Asing) Sdn Bhd	Malaysia	62.25	60.22	Agent and nominee for foreign clients
HL Bank Nominees (Singapore) Pte Ltd+	Singapore	62.25	60.22	Agent and nominee for clients
HLB Ventures Sdn Bhd	Malaysia	62.25	60.22	Dormant
HLB Trade Services (Hong Kong) Limited+	Hong Kong	62.25	60.22	Trade finance activities
Credit Corporation (Malaysia) Sdn Bhd#	Malaysia	62.25	60.22	Dormant
WTB Corporation Berhad and its subsidiary companies:#	Malaysia	62.25	60.22	Dormant
Wah Tat Nominees (Tempatan) Sdn Bhd*	Malaysia	62.25	60.22	Agent and nominee for Malaysian clients
Wah Tat Nominees (Asing) Sdn Bhd*	Malaysia	62.25	60.22	Agent and nominee for foreign clients
Wah Tat Properties Sdn Bhd*	Malaysia	62.25	60.22	Dormant
Chew Geok Lin Finance Berhad	Malaysia	62.25	60.22	Dormant
Chew Geok Lin Nominees (Tempatan) Sendirian Berhad*	Malaysia	62.25	60.22	Dormant
Chew Geok Lin Nominees (Asing) Sendirian Berhad*	Malaysia	62.25	60.22	Dormant

\* Not audited by PricewaterhouseCoopers.

+ Audited by member firms of PricewaterhouseCoopers International.

# Subsidiary companies consolidated under the merger method of accounting.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 12 Investment in associated companies

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Unquoted shares outside Malaysia</b>	-	1,284	-	-
Share of post acquisition reserves	-	1,299	-	-
Loss on exchange taken to exchange fluctuation reserve	-	(616)	-	-
	-	1,967	-	-
	-	1,967	-	-
<b>Represented by:</b>				
Share of net assets other than goodwill of the associated companies	-	1,967	-	-
Premium on acquisition	-	-	-	-
	-	1,967	-	-

The associated company, held through HLG Capital Berhad was:

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2005 %	2004 %	
HLG Asset Management Philippines Inc*	The Republic of Philippines	-	30.75	Dormant

\* Not audited by PricewaterhouseCoopers.

## 13 Deferred tax asset

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

		The Group	
		2005 RM'000	2004 RM'000
Deferred tax assets	(a)	118,976	144,334
Deferred tax liabilities	(b)	(2,012)	(515)
		116,964	143,819
<b>(a) Deferred tax asset</b>			
General provision		117,013	102,942
Interest-in-suspense/income-in-suspense		-	39,021
Excess of capital allowance over depreciation		(19,425)	(15,106)
Other temporary differences		21,388	17,477
		118,976	144,334

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 13 Deferred tax asset (continued)

### (b) Deferred tax liability

Excess of capital allowance over depreciation	(4,895)	(3,192)
Other temporary differences	2,883	2,677
	(2,012)	(515)

The movements in deferred tax assets and liabilities during the year comprise the following:

The Group	General provision RM'000	Interest-in- suspense/ Income-in- suspense RM'000	Excess of capital allowance over depreciation RM'000	Other temporary differences RM'000	Total RM'000
<b>(a) Deferred tax assets</b>					
At 1 July 2004	102,942	39,021	(15,106)	17,477	144,334
Credited from/(charged) to income statement	14,071	(39,021)	(4,319)	3,911	(25,358)
<b>At 30 June 2005</b>	<b>117,013</b>	<b>-</b>	<b>(19,425)</b>	<b>21,388</b>	<b>118,976</b>
At 1 July 2003	102,400	38,050	(16,562)	12,263	136,151
Credited from income statement	542	971	1,456	5,685	8,654
Transfer from life fund revenue account	-	-	-	(471)	(471)
At 30 June 2004	102,942	39,021	(15,106)	17,477	144,334
<b>(b) Deferred tax liabilities</b>					
At 1 July 2004			(3,192)	2,677	(515)
Charged to income statement			(1,412)	(145)	(1,557)
Transfer from Life fund revenue accounts			-	299	299
Acquisition of subsidiary			(291)	52	(239)
<b>At 30 June 2005</b>			<b>(4,895)</b>	<b>2,883</b>	<b>(2,012)</b>
At 1 July 2003			-	-	-
Charged to income statement			(3,192)	2,677	(515)
At 30 June 2004			(3,192)	2,677	(515)

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 14 Property, plant and equipment

	Land and building* RM'000	Office and computer equipment RM'000	Furniture, fittings and Renovation^ RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
<b>The Group</b>						
Net book value at 1 July 2004	97,109	124,398	52,079	4,939	46,361	324,886
Exchange adjustments	-	38	12	9	-	59
Additions	359	48,165	20,678	5,530	7,209	81,941
Acquisition	13,423	2,333	173	-	-	15,929
Disposals	(4,644)	(1,011)	(743)	(97)	(10,620)	(17,115)
Transfer	2,419	-	-	-	-	2,419
Reclassification	-	8,878	61	-	(8,939)	-
Written off	-	(8)	-	-	-	(8)
Depreciation	(1,015)	(43,362)	(19,737)	(2,438)	-	(66,552)
Net book value at 30 June 2005	107,651	139,431	52,523	7,943	34,011	341,559
<b>At 30 June 2005</b>						
Cost	127,341	399,871	204,345	16,341	34,011	781,909
Accumulated depreciation	(19,690)	(260,440)	(151,822)	(8,398)	-	(440,350)
Net book value	107,651	139,431	52,523	7,943	34,011	341,559
<b>At 30 June 2004</b>						
Cost	108,930	353,032	195,847	15,171	46,361	719,341
Accumulated depreciation	(11,821)	(228,634)	(143,768)	(10,232)	-	(394,455)
Net book value	97,109	124,398	52,079	4,939	46,361	324,886

^Renovation works with net book value of RM nil (2004: RM5,535,000) are financed under finance lease.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 14 Property, plant and equipment (continued)

\* Land and building consists of the following:

	Freehold		Long leasehold		Short leasehold		Total RM'000
	land RM'000	building RM'000	land RM'000	building RM'000	land RM'000	building RM'000	
<b>The Group</b>							
Net book value at 1 July 2004	35,528	31,674	6,478	17,952	3,355	2,122	97,109
Disposals	(796)	(1,238)	(1,633)	(977)	-	-	(4,644)
Additions	359	-	484	1,935	-	-	2,778
Acquisition	-	-	9,906	3,517	-	-	13,423
Depreciation	-	(457)	(89)	(390)	(43)	(36)	(1,015)
Net book value at 30 June 2005	35,091	29,979	15,146	22,037	3,312	2,086	107,651
<b>At 30 June 2005</b>							
Cost	35,091	35,748	19,991	28,557	5,271	2,683	127,341
Accumulated depreciation	-	(5,769)	(4,845)	(6,520)	(1,959)	(597)	(19,690)
Net book value	35,091	29,979	15,146	22,037	3,312	2,086	107,651
<b>At 30 June 2004</b>							
Cost	35,528	37,318	7,299	20,831	5,271	2,683	108,930
Accumulated depreciation	-	(5,644)	(821)	(2,879)	(1,916)	(561)	(11,821)
Net book value	35,528	31,674	6,478	17,952	3,355	2,122	97,109
<b>The Company</b>							
			Office and computer equipment RM'000	Furniture and fittings RM'000	Renovation RM'000	Motor vehicles RM'000	Total RM'000
Net book value at 1 July 2004			113	60	183	529	885
Additions			63	1	24	906	994
Disposals			(9)	(4)	-	-	(13)
Depreciation			(79)	(24)	(26)	(214)	(343)
Net book value at 30 June 2005			88	33	181	1,221	1,523
<b>At 30 June 2005</b>							
Cost			452	490	272	1,612	2,826
Accumulated depreciation			(364)	(457)	(91)	(391)	(1,303)
Net book value			88	33	181	1,221	1,523
<b>At 30 June 2004</b>							
Cost			557	603	248	1,407	2,815
Accumulated depreciation			(444)	(543)	(65)	(878)	(1,930)
Net book value			113	60	183	529	885

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 15 Goodwill arising on consolidation

	The Group	
	2005 RM'000	2004 RM'000
At beginning of the year	380,985	406,830
Acquisition of equity holding in a subsidiary company	13,614	-
Rateable goodwill attributable to share buy back of a subsidiary company	77,259	-
Adjustment for goodwill in relation to issuance of shares of a subsidiary company	-	(24,960)
Amortisation of goodwill arising on consolidation of a subsidiary group	(475)	(323)
Written off goodwill arising on consolidation of a subsidiary group	-	(562)
At end of the year	471,383	380,985

## 16 Deposits from customers

	The Group	
	2005 RM'000	2004 RM'000
Fixed deposits	28,711,240	26,984,619
Negotiable instruments of deposit	1,095,999	1,410,000
	29,807,239	28,394,619
Demand deposits	3,668,589	3,579,144
Savings deposits	6,100,599	5,682,842
Trust deposits	-	20,247
Others	146,029	107,141
	39,722,456	37,783,993

Maturity structure of fixed deposits and negotiable instruments of deposit is as follows:

**Due within:**

Six months	22,995,133	22,176,423
Six months to one year	6,758,252	6,120,521
One year to three years	53,854	96,401
Three years to five years	-	1,274
	29,807,239	28,394,619

## 17 Deposits and placements of banks and other financial institutions

	The Group	
	2005 RM'000	2004 RM'000
Licensed banks	2,066,162	1,323,369
Other financial institutions	-	128,150
	2,066,162	1,451,519



# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 18 Floating rate certificates of deposit

	The Group	
	2005 RM'000	2004 RM'000
Floating rate certificates of deposit		
- USD 110 million	<b>417,916</b>	-

The USD 110 million Floating Rate Certificates of Deposit issued by the Bank carry floating interest rates calculated with a spread based on London Interbank Offered Rate ("LIBOR"). It will mature on 20 March 2006.

## 19 Payables and other liabilities

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade payables	<b>190,794</b>	144,509	-	-
Amount due to:				
- subsidiary companies	-	-	<b>783</b>	5
- other related companies	<b>1,593</b>	2,354	-	-
Other payables and accrued liabilities	<b>472,702</b>	171,426	<b>3,621</b>	3,257
Interest payable	<b>307,072</b>	187,877	<b>6,012</b>	6,199
Post employment benefits obligation				
- defined contribution plan	<b>6,140</b>	4,336	<b>384</b>	228
	<b>978,301</b>	510,502	<b>10,800</b>	9,689

The amount due to subsidiary companies and other related companies are unsecured, interest free and repayable on demand.

## 20 Bank loans

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Unsecured:</b>				
Revolving credit	<b>201,000</b>	216,800	<b>161,000</b>	167,800

The revolving credit facilities carry interest rates ranging from 3.43% to 3.70% (2004: 3.47% to 4.50%) per annum. The bank loans are repayable within 12 months.

# Notes To The Financial Statements

for the financial year ended 30 June 2005 (continued)

## 21 Long term liabilities

	Note	The Group		The Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Unsecured term loans					
- financial institutions	(a)	-	100,000	-	100,000
Commercial papers	(b)		-		-
Cost		<b>69,000</b>	-	<b>69,000</b>	-
Add: Accretion of discount		<b>98</b>	-	<b>98</b>	-
Medium term notes	(b)	<b>200,000</b>	200,000	<b>200,000</b>	200,000
		<b>269,098</b>	300,000	<b>269,098</b>	300,000
Repayment of term loans					
- one to two years		-	100,000	-	100,000
Repayment of commercial papers					
- less than one year		<b>69,098</b>	-	<b>69,098</b>	-
Repayment of medium term notes					
- two to five years		<b>160,000</b>	160,000	<b>160,000</b>	160,000
- five to ten years		<b>40,000</b>	40,000	<b>40,000</b>	40,000
		<b>269,098</b>	300,000	<b>269,098</b>	300,000

- a) The unsecured term loans from the financial institutions carry interest rates ranging from 3.30% to 6.32% per annum in the previous financial year.
- b) On 9 July 2002, the Company entered into a 7 year RM300 million Commercial Papers ("CPs") and Medium Term Notes ("MTNs") Programme which were constituted by a Trust Deed between the Company and Arab-Malaysian Trustee Berhad as trustee.

The CPs are issued at a discount of 2.85% and the issue price is calculated in accordance with the Rules on Fully Automated System for Issuing/Tendering ("FAST") issued by Bank Negara Malaysia at the tenure of one (1), two (2), three (3), six (6), nine (9) or twelve (12) months as the Company may select.

The MTNs are issued at par and the issue price is calculated in accordance with the FAST Rules, at the tenure of one (1) to seven (7) years as the Company may select. The MTNs carries interest rates ranging from 6.50% to 7.55% per annum.

The MTNs and CPs are unsecured and the Company is required to maintain a debt to equity ratio for these facilities.

## 22 Insurance funds

	The Group	
	2005 RM'000	2004 RM'000
Unearned premium reserves	<b>118,577</b>	97,749
Life policyholders' fund	<b>2,808,774</b>	2,467,747
Life investment-linked unitholders' fund	<b>109,886</b>	67,805
	<b>3,037,237</b>	2,633,301

- (a) Based on the actuarial valuation of the fund made up to 30 June 2005, the Actuary was satisfied that the assets available in the Life fund are sufficient to meet its long term liabilities to policyholders.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 22 Insurance funds (continued)

(b) Results of the actuarial valuation of Life policyholders' fund as at 30 June 2005 is as follows:

	The Group	
	2005 RM'000	2004 RM'000
<b>Actuarial liabilities</b>		
At beginning of the year	2,094,415	1,837,406
Add:		
Increase in policy reserves	158,328	130,198
Bonus allocated to participating policyholders (including interim bonus) - from normal surplus	140,167	126,810
At end of the year	2,392,910	2,094,414
<b>Unallocated surplus</b>		
At beginning of the year	373,331	234,350
Add:		
Surplus arising during the year	227,700	310,793
Bonus allocated to policyholders (including interim bonus) - from normal surplus	(140,167)	(126,810)
Transfer to income statement	(45,000)	(45,000)
At end of the year	415,864	373,333
Life policyholders' fund at end of the year		
Actuarial liabilities	2,392,910	2,094,414
Unallocated surplus	415,864	373,333
Life policyholders' fund	2,808,774	2,467,747

(c) The Life fund revenue account for the year is as follows:

	The Group	
	2005 RM'000	2004 RM'000
Net premium income	619,251	570,624
Benefit and claim incurred	(159,797)	(155,068)
Commissions and agency expenses	(113,801)	(105,054)
Management expenses	(52,121)	(48,628)
Investment income	120,425	102,749
Other operating income/(expenses) - net	25,699	135,385
Surplus from operations before taxation	439,656	500,008
Taxation	(11,548)	(18,884)
Surplus after taxation	428,108	481,124
(Increase)/decrease in investment-linked fund	(42,081)	(40,133)
	386,027	440,991
Life policyholders' fund at the beginning of the year	2,467,747	2,071,756
Transfer to income statement	(45,000)	(45,000)
Life policyholders' fund at the end of the year	2,808,774	2,467,747

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 22 Insurance funds (continued)

	The Group	
	2005 RM'000	2004 RM'000
<b>The Life policyholders' fund is arrived at after charging:</b>		
HLA's auditors remuneration	58	45
Depreciation of property, plant and equipment	4,892	3,972
Write down of cost of quoted investments	4,056	-
Directors' fees	192	164
Loss on sale of property, plant and equipment	3	142
Rental expense	3,004	2,538
Impairment loss of quoted investments	-	1,364
Provision for doubtful debts	(139)	-
Provision for staff retirement benefits	89	-
Amortisation of premium of MGS	4,800	-
Others	463	-
<b>And crediting:</b>		
Gross dividends from		
- shares quoted in Malaysia	9,968	16,967
Interest income from:		
- Cagamas bonds	4,241	-
- term loans/loan stocks	-	1,070
- Malaysian Government securities	11,395	1,880
- fixed and call deposits	27,807	21,576
- specified debt securities	9,080	6,384
- policy and premium loans	19,994	16,285
- quoted bonds and debentures	381	114
- unquoted bonds and debentures	25,993	23,338
Gain on sale of property, plant and equipment	54	-
Gain on sale of investments	30,320	139,630
Rental income	11,411	11,697
Diminution in value written back		
- quoted investment	-	2,027
- investment in investment-linked units	212	-
Accretion of discount, net of amortisation of premium	1,246	3,438
Write back of provision for doubtful debts	-	78
Others	(206)	-

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 23 Share capital

	The Group and Company	
	2005 RM'000	2004 RM'000
Ordinary shares of RM1.00 each		
<b>Authorised:</b>		
At beginning of the year	2,000,000	2,000,000
Increase during the year	-	-
<b>At end of the year</b>	<b>2,000,000</b>	<b>2,000,000</b>
Ordinary shares of RM1.00 each		
<b>Issued and fully paid capital:</b>		
At beginning of the year	1,040,722	1,039,988
Issued upon exercise of share options	-	734
<b>At end of the year</b>	<b>1,040,722</b>	<b>1,040,722</b>

### (a) Warrants

The 1997/2001 Warrants were constituted by a Deed Poll executed by the Company on 25 June 1997 for the warrant holders. Each 1997/2001 Warrant gives the registered holder at any time within the exercise period to subscribe for one (1) new share of RM1.00 each in the Company at an exercise price of RM9.45. The exercise price may be adjusted in accordance with the provisions contained in the Deed Poll. The warrants are transferable and listed on the Bursa Malaysia Securities Berhad.

At the Extraordinary General Meeting of the Company and the Warrant holders' Meeting held on 26 January 2000, the shareholders and warrant holders of the Company approved:

- (i) the extension of the subscription period of the 1997/2001 Warrants for a further period of 5 years and 6 months from the existing expiry date of 27 December 2001 to 27 June 2007 ("1997/2007 Warrants"); and
- (ii) the issue of replacement warrants ("Replacement Warrants") to the holders of the 1997/2001 Warrants on the basis of one (1) Replacement Warrant for one (1) 1997/2001 Warrant held at an issue price of RM0.10 per Replacement Warrant. The exercise price of the Replacement Warrants was RM5.22 per new share while the expiry date was 27 December 2001. The Replacement Warrants were constituted by the Deed Poll executed by the Company on 26 January 2000.

On the expiry date of the Replacement Warrants on 27 December 2001, a total of 54,339,209 Replacement Warrants were converted to new shares of the Company while the remaining unexercised 11,092,774 Replacement Warrants became null and void.

As at 30 June 2005, the number of 1997/2007 Warrants outstanding and unexercised was 12,338,534 and the warrants exercise price is RM4.82.

### (b) Executive Share Option Scheme ("ESOS")

The main features of the ESOS is disclosed in the Directors' Report and details of the ESOS are disclosed in Note 40 to the financial statements.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 24 Reserves

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Non-distributable</b>				
- Share premium	71,216	71,216	71,216	71,216
- Statutory reserve	870,813	1,018,783	-	-
- Capital and other reserve	133,258	87,317	18,484	18,484
- Exchange fluctuation reserve	26,226	25,073	-	-
	<b>1,101,513</b>	1,202,389	<b>89,700</b>	89,700
<b>Distributable</b>				
- Retained profit	1,069,534	756,286	519,780	484,186
	<b>2,171,047</b>	1,958,675	<b>609,480</b>	573,886

Subject to agreement with the Inland Revenue Board, the Company has tax credit under Section 108 of the Income Tax Act, 1967 to frank payment of dividends out of the Company's retained profit to the extent of RM369,609,000 (2004: RM227,359,000). In addition, the Company has tax exempt income of approximately RM116,951,000 (2004: RM238,568,000) available for future distribution of tax exempt dividends.

Share premium is used to record premium arising from new shares issued by the Company.

The statutory reserve is maintained in compliance with the requirement of Bank Negara Malaysia and is not distributable as cash dividend.

The capital reserve of the Group arose from the capitalisation of bonus issue and gain on disposal of subsidiary company and assets in certain subsidiary companies in previous years. The capital reserve of the Company arose from gains on disposal of subsidiary companies and investments and proceeds on issuance of replacement warrants used for bond redemption in previous years.

Exchange differences arising on translation of foreign subsidiary and associated companies are taken to exchange fluctuation reserve, as described in the accounting policies.

## 25 Revenue

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Interest income	2,115,571	2,050,635	2,194	3,720
General insurance premium	443,223	384,248	-	-
Management and advisory fees	60,537	56,681	36	36
Investment income	17,005	18,892	304,325	432,533
Brokerage income	17,691	29,172	-	-
	<b>2,654,027</b>	2,539,628	<b>306,555</b>	436,289

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 26 Personnel costs

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Wages and salaries	284,037	249,833	2,921	3,412
Pension costs - defined contribution plans	35,687	30,667	222	381
Other employee benefits	30,475	31,493	268	1,206
	<b>350,199</b>	<b>311,993</b>	<b>3,411</b>	<b>4,999</b>

The number of employees of the Group and the Company at the end of the year was 6,588 (2004: 6,470) and 16 (2004: 15) respectively.

## 27 Profit before taxation

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>The above and surplus from operations of life fund revenue account are arrived at after charging:</b>				
Directors' remuneration (Note 28)	5,889	4,144	2,683	1,406
Auditors' remuneration				
- statutory audit (Malaysian firm)	371	269	53	50
- statutory audit (PwC overseas affiliated firms)	118	116	-	-
- other fees	606	45	5	31
- other audit firms' fees	408	324	-	-
Depreciation of property, plant and equipment	66,552	54,670	343	310
Office rental	40,468	35,038	309	317
Property, plant and equipment written off	8	1,977	8	-
Interest expenses				
- amount due to subsidiary company	-	-	-	-
- deposits	1,091,001	1,005,048	-	-
- others	24,960	41,398	23,164	31,085
Hiring of plant and equipment	4,898	4,575	20	14
Provision for diminution in value of investment	12,554	4,988	-	4,988
<b>And crediting:</b>				
Gross dividends received from:				
- unquoted subsidiary companies	-	-	76,351	76,668
- subsidiary companies quoted in Malaysia	-	-	227,975	355,865
- other shares quoted in Malaysia	2,564	4,391	-	-
Interest income				
- subsidiary companies	-	-	1,511	3,346
- Malaysian government securities and Cagamas bonds	1,490	1,442	-	-
- others	2,258,564	2,223,465	684	374

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 27 Profit before taxation (continued)

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>And crediting (continued):</b>				
Gain on sale of property, plant and equipment	1,908	1,535	49	26
Gain on sale of dealing securities	-	17,424	-	-
Gain on sale of investments	40,519	5,380	258	69
Rental income	79	549	-	-
Foreign exchange gain/(loss)				
- realised	17,431	27,286	-	-
- unrealised	17,763	(4,325)	-	-
Surplus transferred from life business	45,000	45,000	-	-
Accretion of discount less amortisation of premium	(14,631)	(14,124)	(98)	-
Gain due to exercise of ESOS in subsidiary company net of adjustment of goodwill amounted to RM nil (2004: RM225,000)	-	1,078	-	-

## 28 Directors' remuneration

Forms of remuneration in aggregate for all Directors for the year are as follows:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Executive Directors:				
- fees	504	418	120	91
- salary and bonus	1,954	870	1,954	870
- estimated money value for benefits-in-kind	197	88	197	89
- defined contribution retirement plan	41	79	41	79
- other remuneration	42	27	25	14
Non-Executive Directors:				
- fees	512	415	291	218
- other remuneration	2,639	2,247	55	45
	<b>5,889</b>	<b>4,144</b>	<b>2,683</b>	<b>1,406</b>

The movement and details of the Directors of the Company in office, interests in shares and share options, and terms and conditions of the share options are reported in the Directors' Report.

Included in the Non-Executive Directors' remuneration are amounts paid to Directors in their capacities as Executive Directors for certain subsidiary companies.



# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 29 Taxation

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Provision based on profit for the year:</b>				
Current taxation	238,616	187,393	78,623	62,336
Deferred taxation (Note 13)	26,916	(8,139)	-	-
	265,532	179,254	78,623	62,336
Prior year over provision:	(38,810)	(6,606)	-	-
Total income tax expenses	226,722	172,648	78,623	62,336

A reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax expenses of the Group and the Company is as follows:

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Profit before taxation	808,172	719,040	278,235	376,552
Tax calculated at a rate of 28%	226,288	201,331	77,906	105,435
<b>Tax effects of:</b>				
- Differences in tax rate of foreign inward and offshore insurance	(1,103)	(1,971)	-	-
- Income not subject to tax	(3,397)	(29,559)	(487)	(50,724)
- Expenses not deductible for tax purposes	4,859	11,832	1,204	7,625
- Current year tax losses not recognised	-	1,300	-	-
- Previously unrecognised tax losses/capital allowances	(2,349)	(1,740)	-	-
- Tax savings from utilisation of brought forward tax losses	(18)	-	-	-
- Deferred tax not recognised during the financial year	175	-	-	-
- Previously unrecognised other temporary differences	-	(1,939)	-	-
- (Over)/under provision (net of deferred tax effects)	2,267	(6,606)	-	-
Taxation	226,722	172,648	78,623	62,336

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 29 Taxation (continued)

	The Group	
	2005 RM'000	2004 RM'000
<b>Tax losses</b>		
Tax losses for which the related tax credit has not been recognised in the financial statements	300,521	304,068
Tax saving as a result of the utilisation of tax losses brought forward from previous years for which the related credit is recognised during the year	2,018	1,359
<b>Capital allowances</b>		
Unutilised capital allowances for which the related tax credit has not been recognised in the financial statements	46,415	40,915
Tax saving as a result of the utilisation of capital allowances brought forward from previous years for which the related credit is recognised during the year	331	381

The above unabsorbed tax losses of the Group have not been recognised as future realisation is uncertain.

As at 30 June 2005, other temporary differences for which the deferred tax assets have not been recognised amounted to RM86,000 (2004: RM159,000).

## 30 Earnings per share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

	The Group		The Company	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Profit after taxation and minority interest	375,237	388,467	199,612	314,216
Weighted average number of ordinary shares in issue ('000)	1,040,722	1,040,455	1,040,722	1,040,455
Basic earnings per share (sen)	36.1	37.3	19.2	30.2

### (b) Fully diluted earnings per share

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: ESOS granted to certain executives and warrants. In respect of the share option, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the 'unpurchased' shares to be added to the ordinary shares outstanding for the purpose of computing the dilution. The warrants are assumed to have been converted into ordinary shares, but they are not dilutive in the current and previous financial year given that the exercise price is higher than the average market price. No adjustment is made to the profit after taxation and minority interest.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 30 Earnings per share (continued)

	The Group		The Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Profit after taxation and minority interest	375,237	388,467	199,612	314,216
Weighted average number of ordinary shares in issue:				
- during the year ('000)	1,040,722	1,040,455	1,040,722	1,040,455
- adjustment for share options ('000)	-	389	-	389
- for computation purpose of fully diluted earnings ('000)	1,040,722	1,040,844	1,040,722	1,040,844
Fully diluted earnings per share (sen)	36.1	37.3	19.2	30.2

## 31 Dividends

	The Group and Company	
	2005 RM'000	2004 RM'000
First interim dividend paid of 8 sen less income tax (2004: 6 sen per share less income tax)	59,946	44,945
Second interim dividend paid of 10 sen per share tax exempt (2004: 7 sen per share tax exempt)	104,072	72,851
	164,018	117,796

## 32 Commitments and contingencies

		The Group	
		2005 RM'000	2004 RM'000
Banking and finance subsidiary companies related commitments and contingencies	(a)	38,380,331	20,200,101
Other commitments and contingencies - unsecured	(b)	17,879	5,000
Others	(c)	-	45,701
		38,398,210	20,250,802

### (a) Banking and finance subsidiary companies related commitments and contingencies

In the normal course of business, the banking and finance subsidiary companies make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are also not secured over the assets of the Group.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 32 Commitments and contingencies (continued)

### (a) Banking and finance subsidiary companies related commitments and contingencies (continued)

The commitments and contingencies outstanding are as follows:

	The Group			
	2005		2004	
	Principal RM'000	Credit equivalent RM'000	Principal RM'000	Credit equivalent RM'000
Direct credit substitutes	161,538	161,538	156,131	156,131
Certain transaction-related contingent items	308,963	154,482	433,562	216,781
Short-term self-liquidating trade-related contingencies	469,936	93,987	482,815	96,563
Obligations under underwriting agreement	-	-	62,214	31,107
Irrevocable commitment to extend credit:				
- maturity more than one year	4,122,753	2,061,377	3,856,852	1,928,426
- maturity less than one year	9,181,257	-	8,409,576	-
Foreign exchange related contracts:				
- less than one year	7,639,221	158,934	4,659,469	63,814
Interest rate related contracts:				
- less than one year	5,442,895	1,735	775,000	1,933
- one year to less than five years	10,946,152	72,559	1,308,591	31,864
Equity related contracts:				
- less than one year	106,922	1,604	55,335	415
Miscellaneous	694	-	556	-
	<b>38,380,331</b>	<b>2,706,216</b>	20,200,101	2,527,034

Foreign exchange and interest rate related contracts are subject to market risk and credit risk.

#### Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off balance sheet positions. As at 30 June 2005, the notional amount of contracts which were not hedged and hence, exposed to foreign exchange and interest rate market risk was RM552,922,000 (2004: RM228,765,000) and RM4,592,978,000 (2004: RM1,533,591,000) respectively.

#### Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the banking subsidiary has a gain position. As at 30 June 2005, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM69,528,000 (2004: RM10,689,000). This amount will be increased or decreased over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

### (b) Other commitments and contingencies - unsecured

HLG Unit Trust Bhd, a wholly-owned subsidiary company of HLG Capital Berhad, is the Manager of HLG Sectoral Fund ("Funds"), which comprises five sector funds. HLG Capital Berhad provided a guarantee to Universal Trustee (Malaysia) Berhad, the trustee of the Funds, that if any of the five sector funds fall below the minimum fund size of RM1 million, HLG Capital Berhad would invest cash, equivalent to the shortfall, into the relevant fund.

The size of each of the five funds was above the minimum of RM1 million as at 30 June 2005.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 32 Commitments and contingencies (continued)

### (c) Others

In the previous financial year, the stockbroking subsidiary company, HLG Securities Sdn Bhd ("HLG Securities") entered into equity swap agreements amounting to RM45,701,000 with third parties which reference to Malaysian quoted shares in accordance with terms specified therein. Market value gains and any distribution thereon, less the relevant incidental costs, will be recognised upon disposal and shared between the subsidiary company and the counterparties according to the proportion and terms as set out in the respective agreements. Losses however will be fully borne by the counterparties.

To hedge its obligations under the swap agreements, the stockbroking subsidiary company purchased such Malaysian quoted shares and these are recorded as "Other assets" of the stockbroking subsidiary company.

### (d) Litigation against the Group and its subsidiary companies

HLG Capital Berhad and its wholly-owned subsidiary company, HLG Securities Sdn Bhd ("HLG Securities") had been named as defendants in a Writ of Summons dated 21 March 2002 filed by Borneo Securities Holdings Sdn Bhd ("BSH") and served on HLG Securities on 15 April 2002.

BSH alleged that HLG Securities had breached the terms of the sale and purchase agreement dated 31 October 2000 ("SPA") between HLG Securities and BSH for HLG Securities' proposed acquisition of 100% equity interest in Borneo Securities Sdn Bhd for a total purchase consideration of RM88 million. HLG Capital Berhad is of the view that the suit is baseless as the motion for the proposed acquisition was not approved by the shareholders at the Extraordinary General Meeting of HLG Capital Berhad held on 24 October 2001 and accordingly, the SPA was terminated.

## 33 Capital commitments

	The Group	
	2005 RM'000	2004 RM'000
Approved and contracted for	37,536	21,110
Approved but not contracted for	20,245	8,030
	<b>57,781</b>	29,140

The capital commitments are attributed to property, plant and equipment.

## 34 Lease commitments

The Group has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments, net of sublease, under non-cancellable operating lease commitment are as follows:

	The Group	
	2005 RM'000	2004 RM'000
Less than one year	3,800	2,522
More than one year but less than five years	8,152	5,558
More than five years	22	81

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 34 Lease commitments (continued)

The Group has a finance lease with a subsidiary company to finance renovation works of branches and the finance lease arrangement is as follows:

	The Group	
	2005 RM'000	2004 RM'000
Minimum lease payments:		
- not later than one year	-	745
- later than one year and not later than five years	-	-
	-	745
Future finance charges on finance leases	-	(17)
Present value of finance lease liabilities	-	728
Present value of finance lease liabilities:		
- not later than one year	-	728
- later than one year and not later than five years	-	-
	-	728

## 35 Capital adequacy ratio

BNM guidelines require the banking and finance subsidiary companies to maintain a certain minimum level of capital funds against the "risk-weighted" value of assets and certain commitments and contingencies. The capital funds of the subsidiary company as at 30 June 2005 met the minimum requirement.

## 36 Holding company

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

## 37 Segmental information

Segmental information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

No analysis by geographical segments is presented as the Group's operations are substantially carried out in Malaysia.

Inter-segment pricing is determined based on arms-length basis. These transactions are eliminated on consolidation.

Segment results, assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise tax recoverable, tax payable, other corporate assets and other corporate liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 37 Segmental information (continued)

### Business segments

The Group comprises the following main business segments:

Banking and finance	Licensed commercial banking business
Securities	Stocks and securities broking, and fund and unit trust management
Insurance	Life and general insurance business
Property development*	Property investment and development
Other operations	Investment holding, provision of management services, information technology and internet related business

\* In the previous financial year, the Group completed the demerger of the associated company via capital distribution and disposal of its residual shares.

Set out below is information of the Group by business segments:

The Group 2005	Banking & finance RM'000	Securities RM'000	Insurance RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
<b>Revenue</b>						
External sales	2,114,268	82,324	456,521	914	-	2,654,027
Inter-segment sales	21,346	3,477	8,178	3,144	(36,145)	-
	2,135,614	85,801	464,699	4,058	(36,145)	2,654,027
<b>Result</b>						
Segment result	722,178	20,008	95,528	306,509	(310,590)	833,633
Share of results of associated companies	-	(61)	-	-	-	(61)
Finance cost						(25,400)
Profit before taxation						808,172
Taxation						(226,722)
Share of tax of associated companies						-
Profit after taxation						581,450
Minority interest						(206,213)
Profit attributable to shareholders						375,237
<b>Other information</b>						
Segment assets	57,829,565	276,335	3,800,823	45,868	(1,113,323)	60,839,268
Other corporate assets						137,994
Total consolidated assets						60,977,262
Segment liabilities	53,186,237	65,535	3,408,597	17,508	(1,113,323)	55,564,554
Other corporate liabilities						514,504
Total consolidated liabilities						56,079,058
Capital expenditure	65,937	948	13,754	1,302	-	81,941
Depreciation	51,582	2,161	12,385	424	-	66,552
Net interest/income suspended	126,137	-	-	-	-	126,137
Loan loss and other provisions	166,106	-	-	-	-	166,106

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 37 Segmental information (continued)

Set out below is information of the Group by business segments (continued):

The Group 2004	Banking & finance RM'000	Securities RM'000	Insurance RM'000	Property development RM'000	Other operations RM'000	Eliminations RM'000	Consolidated RM'000
<b>Revenue</b>							
External sales	2,057,897	83,745	395,452	-	2,534	-	2,539,628
Inter-segment sales	14,707	4,607	6,464	-	3,062	(28,840)	-
	2,072,604	88,352	401,916	-	5,596	(28,840)	2,539,628
<b>Result</b>							
Segment result	528,721	35,627	124,116	-	64,096	3	752,563
Share of results of associated companies	-	(399)	-	486	-	-	87
Finance cost							(33,610)
Profit before taxation							719,040
Taxation							(172,648)
Share of tax of associated companies							(392)
Profit after taxation							546,000
Minority interest							(157,533)
Profit attributable to shareholders							388,467
<b>Other information</b>							
Segment assets	49,149,205	318,196	3,317,595	-	42,729	(261,454)	52,566,271
Investment in associated companies	-	1,967	-	-	-	-	1,967
Other corporate assets							183,203
Total consolidated assets							52,751,441
Segment liabilities	44,565,622	106,446	2,941,513	-	16,652	(261,451)	47,368,782
Other corporate liabilities							599,150
Total consolidated liabilities							47,967,932
Capital expenditure	63,400	960	13,838	-	50	-	78,248
Depreciation	43,360	2,366	8,525	-	419	-	54,670
Net interest/income suspended	132,407	-	-	-	-	-	132,407
Loan loss and other provisions	367,437	-	-	-	4,988	-	372,425



# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 38 Significant related party transactions

### (a) Related parties and relationship

The related parties of and their relationship with the Company are as follows:

<b>Related parties</b>	<b>Relationship</b>
Hong Leong Company (Malaysia) Berhad ("HLCM")	Ultimate holding company
HLCM Capital Sdn Bhd, Hong Leong Management School Sdn Bhd, Hong Leong Share Registration Services Sdn Bhd, Hong Leong Consultancy Services Sdn Bhd, HL Management Co Sdn Bhd and GuoLine Capital Assets Limited ("HLCM Group")	Subsidiary companies of ultimate holding company
Guardian Security Consultants Sdn Bhd ("GSC")	Associated company of ultimate holding company
Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("HLI Group")	Subsidiary and associated companies of ultimate holding company
Hume Industries (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements ("HIMB Group")	Subsidiary and associated companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements ("GLM Group")	Associated companies of ultimate holding company
O.Y.L. Industries Bhd and its subsidiary and associated companies as disclosed in its financial statements ("OYL Group")	Associated companies of ultimate holding company
BIB Insurance Brokers Sdn Bhd ("BIB")	Connected person to Tan Sri Dato' Zaki bin Tun Azmi, a director of certain related companies

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 38 Significant related party transactions (continued)

### (b) Related party transactions

Transactions with related parties are as follows:

	The Group	
	2005 RM'000	2004 RM'000
<b>Income</b>		
Rental income		
- HLCM and HLCM Group	(2,232)	(1,303)
- HLI Group	(1,262)	(1,359)
- GLM Group	(102)	(1,022)
Dividend income		
- HLI Group	(898)	-
- OYL Group	(1,080)	-
Brokerage fee received		
- HLCM and HLCM Group	(1,247)	(1,781)
- GGL Group	-	(19)
- OYL Group	-	(252)
- BIB	-	(3)
Insurance premium received		
- HLCM & HLCM Group	(345)	(99)
- HLI Group	(19,257)	(15,247)
- GLM Group	(869)	(97)
- HIMB Group	(5,017)	(5,780)
- OYL Group	(1,641)	(1,582)
- BIB	(86)	(109)
Interest income		
- HLI Group	(5,991)	(5,911)
Others		
- GLM Group	(17)	(83)
- HLI Group	(51)	(249)
- OYL Group	(51)	(249)
- BIB	(60)	-
	<b>(40,206)</b>	<b>(35,145)</b>

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 38 Significant related party transactions (continued)

### (b) Related party transactions (continued)

Transactions with related parties are as follows (continued):

	The Group	
	2005 RM'000	2004 RM'000
<b>Expenditure</b>		
Rental expenditure		
- HLCM and HLCM Group	1,765	1,579
- HLI Group	18	60
- GLM Group	3,429	3,294
- GGL Group	1,502	283
Interest expenses		
- HLCM and HLCM Group	19	60
- HLI Group	164	1,103
- GLM Group	768	854
- HIMB Group	256	272
- OYL Group	-	634
- GGL Group	461	716
- BIB	-	1
Professional and management		
- HLCM and HLCM Group	8,213	5,076
- GLM Group	-	828
- GGL Group	-	29
- OYL Group	722	-
Commission paid		
- BIB	5,263	4,004
Insurance premium		
- BIB	1,616	125
Security services		
- GSC	95	97
Training expenditure		
- HLCM and HLCM Group	786	788
Loss on disposal of associated company		
- HLCM Group	-	39,267
Others		
- HLCM and HLCM Group	589	2,029
- GLM Group	10	360
- HLI Group	54	163
- OYL Group	-	204
- GGL Group	382	694
- HIMB Group	121	-
	<b>26,233</b>	<b>62,520</b>

The Directors are of the opinion that the above transactions had been entered into in the normal course of business and were carried out on commercial terms and at market rates.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments

### **Risk management objectives and policies**

The Group's financial risk management policies are adopted from its main operating subsidiary companies which are involved in banking and finance, securities and insurance related business.

The Board of Directors ("Board") of each main operating subsidiary company has the overall responsibility to ensure there is proper oversight of the management of risks in each of the subsidiary company. The Board sets the risk appetite and tolerance level that are consistent with each subsidiary company's overall business objectives and desired risk profile. A number of committees and dedicated risk management functions have been established to address and manage specific areas of risk and implement various risk management policies and procedures.

Specifically, a Board Audit & Risk Management Committee ("BARMC") comprising members of the Directors, has been set up to oversee that risk management at all levels is being managed effectively. They, in turn, report all the risk management activities to the Directors.

### **Banking and finance**

#### **Integrated risk management**

Managing risks is an integral part of the Bank's overall business strategy, as risks, if left unchecked against a backdrop of rapidly changing financial landscape and increased uncertainty, can translate into costs for the business. Recognising the need to be proactive in the management of risks, the Bank has implemented an Integrated Risk Management ("IRM") framework.

At the apex of the IRM framework, the Board of Directors has the overall responsibility to ensure there is proper oversight of the management risks in the Bank. The Board of Directors set the risk appetite and tolerance level that is consistent with the Bank's overall business objectives and desired risk profile. A number of committees and dedicated risk management functions have been established to manage specific areas of risk and implement various risk management policies and procedures.

Giving due prominence to risk management, a BARMC comprising three members of the Independent/Non-executive Directors has been set up to oversee and ensure that risk management at all levels is being managed effectively. They, in turn, report all the risk management activities to the Board of Directors. To assist the BARMC, the Integrated Risk Management Department ("IRM Department") has been established to provide independent oversight on the adequacy, effectiveness and integrity of risk management practices at all levels within the Bank. The IRM Department has adopted a risk-based approach to consolidate principal risk areas across the Bank and provide a comprehensive profile of such risks so as to enable the Bank to minimise the risk through review and appropriate policies and control.

#### **Credit risk management**

Credit risk is risk of financial loss due to a borrower or counterparty being unable or unwilling to deliver on its payment obligations to the Bank, which leads to a loss of revenue and the principal sum. It arises principally from lending, trade finance and treasury activities. Credit risk management forms a key component of the Bank's integrated risk management structure. The Bank's integrated risk management structure is founded upon a credit risk framework that is compliant with BNM's guidelines on "Best Practices for the Management of Credit Risk".

The Bank gives very strong priority to effective credit risk management. Credit evaluation is managed by experienced personnel, with high level review undertaken by the Management Credit Committee, under the supervision of the Board Credit Supervisory Committee. All credit policies are reviewed and approved by the Board Credit Supervisory Committee.

The key to credit risk management is to ensure that structures and processes are in place to maintain and continuously enhance the Bank's risk assessment capabilities in key areas of credit. These include sound credit policies and procedures, quality credit approvals, appropriate risk measurement and risk methodology, strong credit controls with independent reviews and effective recovery strategies. The Bank's credit risk management process is documented in the Credit Manual. The Credit Manual sets out the Bank's policies on lending guidelines, lending authorities, credit risk rating, credit reviews, collateral, credit administration and security documentation, and timely rehabilitation and restructuring of problematic and delinquent accounts.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### **Banking and finance (continued)**

#### **Credit risk management (continued)**

The management of credit risk commences at the application stage whereby there is a stringent evaluation process, based on prudent lending policies. To enhance credit risk management, the Bank has in place a credit risk rating system for commercial borrowers. As for the retail segment, the Bank has implemented a credit scoring system in credit cards to improve the Bank's ability to control credit losses within predictive ranges and achieve a well-balanced portfolio. The Bank also conducts stress tests to ensure its asset quality is within acceptable levels even under stress scenarios.

Internal Audit also conducts independent post approval reviews on sampling basis to ensure that quality of credit appraisals and approval standards are in accordance with the credit standards and the lending policies and directives established and approved by the Bank's management.

#### **Market risk management**

Market risk is the risk of financial loss arising from exposure to adverse changes in values of financial instruments caused by changes in market prices or rates, which include changes to interest rates.

The Bank adopts a systematic approach in managing such risks by types of instruments and nature of exposure. Market risk is primarily controlled via a series of cut-loss limits and potential loss limits, i.e. "Value at Risk" ("VaR"), set in accordance with the size of positions and risk tolerance appetites:

- Portfolios held under the Bank's trading books are tracked using daily mark-to-market positions, which are compared against preset limits. The daily tracking of positions is supplemented by sensitivity analysis and stress tests, using VaR and other measurements.
- Foreign exchange risks arising from adverse exchange rate movements, is managed by the setting of preset limits, matching of open positions against these preset limits and imposition of cut-loss mechanisms.
- Interest rate risk exposure is also identified, measured and controlled through limits and procedures, which includes regularly reviewing the interest rate outlook and developing strategies to protect total net interest income from changes in market interest rates.

In addition, the Bank also conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

#### **Liquidity risk management**

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arise from the withdrawal of deposits, funding of loans committed and repayment of borrowed funds. It is the Bank's policy to ensure there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

As a safeguard against liquidity risk, the Bank takes a multi-pronged approach towards managing this risk, beginning with a liquidity management system, adopting BNM's Liquidity Framework as the backbone. The Liquidity Framework ascertains the liquidity condition based on contractual and behavioural cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of liquefiable assets. The Bank has been in compliance with the New Liquidity Framework throughout the financial year.

This is supplemented by the Bank's own internal liquidity management policies, which includes cash flow management, maintenance of high quality long term and short term marketable debt securities and diversification of funding base. The Bank has in place liquidity contingency funding plans to minimise the liquidity risk that may arise due to unforeseen adverse changes in the marketplace.

#### **Operational risk management**

The Bank adopts the Basel II's Operational Risk Management definition as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events" which also includes IT and legal risks. As such, operational risk is inherent in each of the Bank's business and operational activities. Such risks may result in breakdowns, errors and can potentially result in financial loss or other losses to the Bank. The primary responsibility of managing such risks rests with the respective operating department/unit.

The Bank takes a proactive stance on identifying and profiling principle potential operational risks and implementing relevant risk mitigation and contingency procedures.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### Banking and finance (continued)

#### **Operational risk management (continued)**

One of the Bank's primary safeguards against operational risks is the existence of a sound internal control system, based on the principle of dual control, checks and balances, segregation of duties, independent checks and verification processes, segmented system access control and multi-tier internal transaction authorisation process. The controls are documented through a set of policies and procedures at the individual business unit level.

The Bank has also set up an Operational Risk Council comprising members of the Bank's senior management to manage its operational risks. The Operational Risk Council intends to minimise bank wide operational risk losses and increase shareholder value in accordance with Basel II standards. Another key role of the Operational Risk Council is to promote awareness of operational risk management within the Bank and its customers.

The Bank has published an Operational Risk Management Awareness Handbook and disseminated across the Bank so as to enhance operational risk awareness among all the staff as well as to inculcate sound risk management as an integral part of planning and management process.

#### **Securities**

The Securities Group's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing their market, interest rate, liquidity, credit and foreign exchange risks. The Securities Group operates within clearly defined authorities that are approved by the Board of Audit and Risk Management Committee.

#### **Market risk**

Market risk is the potential exposure due to changes in the market value of securities that flow through the activities of the Securities Group particularly in the business segments of stockbroking, investment holding, underwriting, fund management, unit trust management and mezzanine financing.

The Securities Group via a stockbroking subsidiary monitors its exposure on all equity securities held through its business activities and management is alerted on the financial impact of these risks with regard to risk concentration of the Securities Group and capital adequacy of the stockbroking subsidiary. The unit trust management subsidiary monitors its market risk exposure by limiting its level of manager's stocks holding. The Securities Group does not use any derivative financial instruments in managing market risk.

#### **Interest rate risk**

The Securities Group's primary interest rate risk relates to interest-bearing borrowings. The Securities Group has no substantial long term interest-bearing assets as at 30 June 2005 and the investment in financial assets is mainly short term in nature. Short term investments in financial assets are not held for speculative purposes but have been mostly placed in fixed deposits or money markets. It is the Securities Group's practice to ensure that the rates obtained are competitive.

Interest rates on trade receivables are fixed or determined on a floating rate basis in accordance with loan arrangements with the various customers. It is the practice of the Securities Group to ensure that the interest rates charged will not be lower than the prevailing market rates while complying with the provisions of Money Lenders Ordinance, 1951.

The Securities Group seeks to achieve a balance between certainty of funding and a flexible and cost-effective borrowing structure. The Securities Group manages the funding requirements of its subsidiary companies and allocates funds in such a manner that all business units maintain optimum levels of liquidity for their operations, which is sufficient to meet the necessary regulatory requirements and without leaving the funding facilities unutilised.

#### **Liquidity risk**

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet the Securities Group's commitments and obligations as and when they fall due. In the stockbroking subsidiary, liquidity risk is also controlled through the monitoring of the subsidiary's compliance to the Bursa Malaysia Securities Berhad Capital Adequacy Requirements.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### Securities (continued)

#### **Credit risk**

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks include credit assessment risk, settlement risk, margin finance default risk and concentration limit risk.

A stockbroking subsidiary has set out specific policies and guidelines on the extension of trading/credit limits to its salaried and commissioned dealer's representatives and clients. Specific requirements and/or parameters in accordance with regulatory requirements are set out for the granting of limits that provide for proper spread and control of the credit risks.

Trade receivables are monitored on an ongoing basis via group-wide management reporting procedures. The stockbroking subsidiary also adheres to the rules of Bursa Malaysia Securities Berhad on significant exposure to any individual customer or financial instrument.

The Securities Group had foreign currency exposure to Philippine Peso from its investment in HLG Philippines, Inc and HLG Asset Management Philippines Inc in the previous financial year. Generally, income and expenditure in foreign currency were matched to minimise currency exchange. The exposure to Philippines Peso was generally not hedged.

Both investments had been disposed off during the financial year.

#### Insurance

Insurers have to comply with the Malaysian Insurance Act and Regulations, including guidelines on investments. The Board is responsible for formulating policies and overseeing the major risks including those risks associated with the Financial Instruments described below.

The responsibility for the formulation, establishment and approval of the Insurance Group's investment policy rest with the Board as reported in the Corporate Governance Framework in the Directors' Report. The deployment and execution of the investment policies is delegated to the Investment Committee ("IC") in which the members are appointed by the Board. The IC oversees the formulation of investment and risk strategy and asset allocation to determine the optimum risk and return profile.

Risk limits are in place at various levels and monitored by a risk manager to ensure all investment securities are compatible with the Insurance Group's investment principles and philosophy. Sensitivity and stress tests are carried out on a regular basis to assess the resilience of the investment portfolios and the impact on the Insurance Group's solvency. An Asset and Liability Management ("ALM") model is being deployed to address the Insurance Group's assets and liabilities match. The ALM model will enable management to assess the long term impact of the investment strategy, asset mix and product pricing strategy on the Insurance Group's financial ability to meet its future obligations.

#### **Actuarial and underwriting risk**

Actuarial risks relate to the adequacy of insurance premium rate levels to provide for insurance liabilities and solvency margin and takes into consideration the developments in mortality, morbidity, lapses and expenses.

Underwriting risk represents the risk that claims incurred are higher than anticipated. This is attributable to the nature of risk underwritten, random nature of claims frequency and severity of claims.

The Insurance Group manages the risks through strict underwriting guidelines, which include exclusions, cover limits, loadings and reinsurance programmes. New risks are carefully assessed before an insurance policy is underwritten and issued.

#### **Credit risk**

Credit risk is the risk of loss due to inability or unwillingness of an issuer to service its debt obligations. The risk arising from lending and investment activities is monitored regularly with respect to single customer limit, exposure to sector type, credit rating and remaining term to maturity, in accordance to investment guidelines and limits approved by the Board and BNM.

At balance sheet date, the credit exposure is within the investment guidelines and limits approved by the Board and BNM. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### Insurance (continued)

#### **Interest rate risk**

Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises from differences in pricing or tenure of investments and liabilities. Interest rate risk is managed by targeting a desired return, which is reviewed periodically, based on the Insurance Group's long term view on interest rates. Investment activities are managed by appropriate asset allocation, which is regularly reviewed and changed in relation to the investment climate to meet the Insurance Group's desired return.

#### **Market risk**

Adverse changes in the equity market impairs the carrying value of the equity portfolio which could affect the solvency of the Insurance Group. The Board has set internal limits for maximum equity exposure and individual stock exposure, which are consistent with BNM's guidelines and has also imposed daily trading limits. The Insurance Group's investment committee decides on the appropriate asset allocation for equities on a regular basis in line with the investment and economic conditions at time of review.

#### **Liquidity risk**

Liquidity risk arises due to inability of the Insurance Group to meet its financial obligations as and when they fall due. The risk is managed via a three-year planning process to ascertain operational cashflow requirements and maintaining a reasonable level of liquid assets to meet any unexpected cashflow.

#### **(a) Interest rate risk**

The tables below summarise the Group's and the Company's exposure to interest rate risks. Included in the tables are the Group's and the Company's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time, the Group and the Company may be exposed to loss in earnings due to the effects of interest rates on the structure of the balance sheets. Sensitivity to interest rate arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liabilities funding.



# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (a) Interest rate risk (continued)

	The Group 2005						Non- interest sensitive RM'000	Islamic Banking RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>										
Cash and short term funds	9,598,683	-	-	-	-	-	520,104	1,461,250	11,580,037	2.78
Securities purchased under resale agreements	3,015,891	4,381,237	2,531,364	-	-	-	-	-	9,928,492	2.80
Deposits and placements with financial institutions	-	3,325,935	87,793	41,663	250	-	-	191,396	3,647,037	2.81
Dealing securities	852,546	1,007,601	112,702	66,258	257,167	36,732	256,999	300,339	2,890,344	3.23
Investments	77,484	258,134	97,562	108,829	3,011,902	471,148	207,279	373,406	4,605,744	4.20
Loans, advances and financing	15,318,795	1,471,068	704,487	1,479,913	3,207,660	1,534,705	(1,177,292)	3,402,467	25,941,803	6.49
Trade receivables#	-	-	-	-	-	-	189,279	-	189,279	-
Other receivables	-	-	-	-	-	-	386,427	17,563	403,990	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	788,450	51,150	839,600	-
Tax recoverable	-	-	-	-	-	-	21,030	-	21,030	-
Deferred tax asset	-	-	-	-	-	-	98,241	18,723	116,964	-
Property, plant and equipment	-	-	-	-	-	-	341,454	105	341,559	-
Goodwill arising on consolidation	-	-	-	-	-	-	471,383	-	471,383	-
<b>Total assets</b>	<b>28,863,399</b>	<b>10,443,975</b>	<b>3,533,908</b>	<b>1,696,663</b>	<b>6,476,979</b>	<b>2,042,585</b>	<b>2,103,354</b>	<b>5,816,399</b>	<b>60,977,262</b>	

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (a) Interest rate risk (continued)

	The Group 2005						Non- interest sensitive RM'000	Islamic Banking RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>Liabilities</b>										
Deposits from customers	15,727,079	4,985,806	3,958,964	6,572,557	44,512	-	3,544,178	4,889,360	39,722,456	2.70
Deposits and placements of banks and other financial institutions	1,697,039	100,000	177,000	-	-	-	373	91,750	2,066,162	2.60
Obligations on securities sold under repurchase agreements	7,805,183	560,465	-	-	-	-	-	246,600	8,612,248	2.60
Floating rate certificates of deposits	-	-	-	417,916	-	-	-	-	417,916	3.50
Bills and acceptances payable	68,123	87,044	88,388	-	-	-	324,778	562	568,895	3.10
Payables and other liabilities#	-	-	-	-	-	-	852,829	125,472	978,301	-
Provision for claims	-	-	-	-	-	-	161,339	-	161,339	-
Provision for taxation	-	-	-	-	-	-	6,033	38,373	44,406	-
Bank loans and overdrafts	121,700	-	39,300	-	40,000	-	-	-	201,000	3.62
Long term liabilities										
- Commercial papers	-	-	-	69,098	-	-	-	-	69,098	2.85
- Medium term notes	-	-	-	-	160,000	40,000	-	-	200,000	6.94
Insurance funds	-	-	-	-	-	-	3,037,237	-	3,037,237	-
<b>Total liabilities</b>	<b>25,419,124</b>	<b>5,733,315</b>	<b>4,263,652</b>	<b>7,059,571</b>	<b>244,512</b>	<b>40,000</b>	<b>7,926,767</b>	<b>5,392,117</b>	<b>56,079,058</b>	
<b>On balance sheet</b>										
- interest rate gap	3,444,275	4,710,660	(729,744)	(5,362,908)	6,232,467	2,002,585	(5,823,413)	424,282	4,898,204	
Interest rate swaps	240,000	(354,645)	(17,402)	28,895	85,750	17,402				
Interest rate futures	-	(1,566,000)	(1,111,000)	(2,377,000)	(7,637,000)	-				
<b>Off balance sheet</b>										
- interest rate gap	240,000	(1,920,645)	(1,128,402)	(2,348,105)	(7,551,250)	17,402				
<b>Net interest gap</b>	<b>3,684,275</b>	<b>2,790,015</b>	<b>(1,858,146)</b>	<b>(7,711,013)</b>	<b>(1,318,783)</b>	<b>2,019,987</b>				

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (a) Interest rate risk (continued)

	The Group 2004						Non- interest sensitive RM'000	Islamic Banking RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>										
Cash and short term funds	13,397,316	-	-	-	-	-	418,487	1,134,100	14,949,903	2.79
Deposits and placements with financial institutions	-	2,876,435	244,970	42,748	-	-	-	-	3,164,153	2.90
Dealing securities	1,370,070	263,689	321,969	6,997	142,650	14,995	255,960	239,893	2,616,223	2.75
Investments	157,138	262,433	63,361	384,770	3,980,453	296,158	261,810*	128,727	5,534,850	4.28
Loans, advances and financing	14,395,383	516,158	422,089	833,153	4,276,250	2,453,557	(1,789,473)^	2,164,828	23,271,945	7.69
Trade receivables#	-	-	-	-	-	-	206,069	-	206,069	-
Other receivables	-	-	-	-	-	-	1,345,149	80,120	1,425,269	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	633,338	58,650	691,988	-
Tax recoverable	-	-	-	-	-	-	39,384	-	39,384	-
Investment in associated companies	-	-	-	-	-	-	1,967	-	1,967	-
Deferred tax asset	-	-	-	-	-	-	129,975	13,844	143,819	-
Property, plant and equipment	-	-	-	-	-	-	324,726	160	324,886	-
Goodwill arising on consolidation	-	-	-	-	-	-	380,985	-	380,985	-
<b>Total assets</b>	<b>29,319,907</b>	<b>3,918,715</b>	<b>1,052,389</b>	<b>1,267,668</b>	<b>8,399,353</b>	<b>2,764,710</b>	<b>2,208,377</b>	<b>3,820,322</b>	<b>52,751,441</b>	

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (a) Interest rate risk (continued)

	The Group 2004						Non- interest sensitive RM'000	Islamic Banking RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>Liabilities</b>										
Deposits from customers	17,352,024	4,533,154	3,453,190	5,918,843	90,325	-	3,494,474	2,941,983	37,783,993	2.70
Deposits and placements of banks and other financial institutions	1,016,406	114,000	19,000	-	-	-	13	302,100	1,451,519	2.20
Obligations on securities sold under repurchase agreements	3,446,144	10,900	-	-	-	-	-	137,849	3,594,893	2.70
Bills and acceptances payable	353,883	426,929	193,943	-	-	-	271,662	1,892	1,248,309	3.20
Payables and other liabilities#	-	-	-	-	-	-	461,153	49,349	510,502	-
Provision for claims	-	-	-	-	-	-	146,265	-	146,265	-
Provision for taxation	-	-	-	-	-	-	53,633	28,717	82,350	-
Bank loans and overdrafts	177,500	-	39,300	-	-	-	-	-	216,800	3.64
Long term liabilities										
- Term loans	-	-	-	-	100,000	-	-	-	100,000	3.30
- Medium term notes	-	-	-	-	90,000	110,000	-	-	200,000	6.94
Insurance funds	-	-	-	-	-	-	2,633,301	-	2,633,301	-
<b>Total liabilities</b>	<b>22,345,957</b>	<b>5,084,983</b>	<b>3,705,433</b>	<b>5,918,843</b>	<b>280,325</b>	<b>110,000</b>	<b>7,060,501</b>	<b>3,461,890</b>	<b>47,967,932</b>	
On balance sheet										
- interest rate gap	6,973,950	(1,166,268)	(2,653,044)	(4,651,175)	8,119,028	2,654,710	(4,852,124)	358,432	4,783,509	
Interest rate swaps	61,419	228,582	62,094	670,000	(122,094)	(900,000)				
Off balance sheet										
- interest rate gap	61,419	228,582	62,094	670,000	(122,094)	(900,000)				
<b>Net interest gap</b>	<b>7,035,369</b>	<b>(937,686)</b>	<b>(2,590,950)</b>	<b>(3,981,175)</b>	<b>7,996,934</b>	<b>1,754,710</b>				

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (a) Interest rate risk (continued)

	The Company 2005							Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
<b>Assets</b>									
Cash and short term funds	20,200	-	-	-	-	-	823	21,023	2.64
Other receivables	-	-	-	-	-	-	6,991	6,991	-
Tax recoverable	-	-	-	-	-	-	14,330	14,330	-
Investment in subsidiary companies	-	-	-	-	-	-	2,047,233	2,047,233	-
Property, plant and equipment	-	-	-	-	-	-	1,523	1,523	-
<b>Total assets</b>	<b>20,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,070,900</b>	<b>2,091,100</b>	
<b>Liabilities</b>									
Payables and other liabilities#	-	-	-	-	-	-	10,800	10,800	-
Bank loans and overdrafts	121,700	-	39,300	-	-	-	-	161,000	3.48
Long term liabilities									
- Commercial paper	-	-	-	69,098	-	-	-	69,098	2.85
- Medium term notes	-	-	-	-	160,000	40,000	-	200,000	6.94
<b>Total liabilities</b>	<b>121,700</b>	<b>-</b>	<b>39,300</b>	<b>69,098</b>	<b>160,000</b>	<b>40,000</b>	<b>10,800</b>	<b>440,898</b>	
<b>On balance sheet - interest rate gap</b>	<b>(101,500)</b>	<b>-</b>	<b>(39,300)</b>	<b>(69,098)</b>	<b>(160,000)</b>	<b>(40,000)</b>	<b>2,060,100</b>	<b>1,650,202</b>	

	The Company 2004							Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000		
<b>Assets</b>									
Cash and short term funds	4,100	-	-	-	-	-	733	4,833	2.69
Other receivables	31,439	-	-	-	-	-	925	32,364	5.04
Tax recoverable	-	-	-	-	-	-	20,576	20,576	-
Investment in subsidiary companies	-	-	-	-	-	-	2,033,439	2,033,439	-
Property, plant and equipment	-	-	-	-	-	-	885	885	-
<b>Total assets</b>	<b>35,539</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,056,558</b>	<b>2,092,097</b>	

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (a) Interest rate risk (continued)

	The Company 2004						Non- interest sensitive RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 6 months RM'000	6 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000			
<b>Liabilities</b>									
Payables and other liabilities#	-	-	-	-	-	-	9,689	9,689	-
Bank loans and overdrafts	128,500	-	39,300	-	-	-	-	167,800	3.48
Long term liabilities									
- Term loans	-	-	-	-	100,000	-	-	100,000	3.30
- Medium term notes	-	-	-	-	90,000	110,000	-	200,000	6.94
<b>Total liabilities</b>	128,500	-	39,300	-	190,000	110,000	9,689	477,489	
<b>On balance sheet - interest rate gap</b>	(92,961)	-	(39,300)	-	(190,000)	(110,000)	2,046,869	1,614,608	

\* Provision for permanent diminution in value for investment securities is included under non-interest sensitive component.

^The negative balance represents specific provisions, interest-in-suspense and general provisions for loans and advances.

# Included in trade receivables, payables and other liabilities are financial assets and liabilities that relate to rights and obligations arising under insurance contracts, amounted to RM120,862,000 (2004: RM105,360,000) and RM411,670,000 (2004: RM357,393,000) respectively.

### (b) Credit risk

For on-balance sheet financial assets, the credit risk concentration for dealing securities is mainly with government, government agencies or related corporations and licensed financial institutions as disclosed in Note 5. In respect of deposits and placements with financial institutions and cash and short term funds, the credit risk concentration is as disclosed in Note 3 and Note 4. Trade receivables are mainly from the securities business segment and there is no significant exposure to any individual customer or counterparty. Composition of other receivables that constitute financial instruments are mainly special deposit with BNM and interest receivables due on placements and securities.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (b) Credit risk (continued)

The credit risk concentration for loans, advances and financing, investment securities and off-balance sheet items is as follows:

	Loans, advances & financing RM'000	Investment RM'000	The Group 2005	
			Treasury- related commitments & contingencies RM'000	Credit- related commitments & contingencies RM'000
Agriculture	235,110	10,305	3,665	171,782
Mining and quarrying	35,436	-	6,432	9,521
Manufacturing	2,049,141	94,775	710,434	1,949,621
Electricity, gas and water	32,123	414,635	10,720	119,678
Construction	800,995	43,173	621	454,057
Real estate	267,807	27,667	-	129,476
Purchase of landed property				
- Residential	8,145,087	-	-	2,481,631
- Non-residential	2,357,690	-	-	757,812
General commerce	1,840,383	6,354	65,014	1,444,175
Transport, storage and communications	245,004	92,660	195	148,539
Finance, insurance and business services	597,311	847,627	21,607,756	246,211
Purchase of securities	5,035,576	8,109	-	33,772
Purchase of transport vehicles	2,035,907	-	468	438,604
Government and government agencies	806,177	2,248,383	-	-
Consumption credit	1,480,656	-	1,971	4,765,537
Others	390,277	412,857	1,727,914	1,112,604
<b>Total</b>	<b>26,354,680</b>	<b>4,206,545</b>	<b>24,135,190</b>	<b>14,263,020</b>

# Notes to the financial statements

for the financial year ended 30 June 2004 (continued)

## 39 Financial instruments (continued)

### (b) Credit risk (continued)

	Loans, advances & financing RM'000	Investment RM'000	The Group 2004	
			Treasury- related commitments & contingencies RM'000	Credit- related commitments & contingencies RM'000
Agriculture	244,969	10,305	3,301	200,436
Mining and quarrying	39,685	30,522	141	12,803
Manufacturing	2,202,188	34,409	689,405	1,666,586
Electricity, gas and water	128,271	236,960	7,376	109,995
Construction	927,332	-	690	496,801
Real estate	151,601	125,745	154,202	62,535
Purchase of landed property				
- Residential	6,661,334	-	-	2,471,833
- Non-residential	1,884,449	-	-	590,209
General commerce	1,651,034	13,363	70,205	1,109,409
Transport, storage and communications	255,941	70,569	354	93,310
Finance, insurance and business services	641,452	381,563	4,665,741	327,791
Purchase of securities	438,473	15,409	-	553,900
Purchase of transport vehicles	4,761,141	-	-	290,467
Government and government agencies	93,068	3,874,666	-	1,965
Consumption credit	2,224,095	392,239	1,236,870	4,047,923
Others	1,032,262	-	15,811	1,370,743
<b>Total</b>	<b>23,337,295</b>	<b>5,185,750</b>	<b>6,844,096</b>	<b>13,406,706</b>

### (c) Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's-length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

The fair values are based on the following methodologies and assumptions:

#### Deposits and placements with financial institutions

For deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.



# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (c) Fair value of financial instruments (continued)

#### **Securities purchased under resale agreements**

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using market rates for the remaining term to maturity.

#### **Loans, advances and financing**

For floating rate loans, the carrying value is generally a reasonable estimate of fair value. For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The fair values of non-performing floating and fixed rate loans are represented by their carrying value, net of specific provision and interest-in-suspense, being the expected recoverable amount.

#### **Dealing and investment securities**

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative interest yields or net tangible asset backing of the investee.

#### **Trade receivables and trust accounts**

The carrying amount as at balance sheet date approximate fair values due to relatively short term maturity of these financial instruments.

#### **Other assets and liabilities**

The carrying value less any estimated allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates except for the special deposit with Bank Negara Malaysia of which fair value has been estimated using the prevailing money market rates for similar remaining period to maturities.

#### **Deposits from customers**

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposit with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

#### **Floating rate certificates of deposit**

The estimated fair value of floating rate certificates of deposit approximate the carrying value given that the floating rates are repriced within a period of six months.

#### **Deposits and placements of banks and other financial institutions, obligations on securities held under repurchase agreements ('repos'), bills and acceptances payable**

The estimated fair values of deposits and placements of banks and other financial institutions, repos and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturities.

#### **Bank loans and long term loans**

The fair values of bank loans and long term loans are estimated using discounted cash flows based on prevailing market rates.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (c) Fair value of financial instruments (continued)

#### Credit related commitment and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received less associated costs.

#### Foreign exchange rate and interest rate related contracts

The fair values of foreign exchange rate and interest rate related contracts are the estimated amounts the Group would receive or pay to terminate the contracts at the balance sheet date.

The above mentioned range of methodologies and assumptions had been used in deriving the fair values of the Group and Company's financial instruments at balance sheet date. The total fair value of each financial instrument approximates the total carrying value, except for the following:

	The Group 2005		The Company 2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b><u>On-balance sheet items</u></b>				
<b>Financial assets:</b>				
Dealing securities	2,890,344	2,908,554	-	-
Investments	4,605,744	4,751,832	-	-
Loans, advances and financing	25,941,803	26,095,374	-	-
Other assets*	403,990	301,885	-	-
<b>Financial liabilities:</b>				
Deposits from customers	39,722,456	39,795,323	-	-
Long term liabilities	269,098	275,172	269,098	275,172
<hr/>				
			The Group 2005 Positive mark- to-market RM'000	Negative mark- to-market RM'000
<b><u>Off-balance sheet items</u></b>				
<b>Derivative financial instruments</b>				
Foreign exchange contracts:				
- Forward contracts		6,899,613	54,927	(37,729)
- Option		739,608	1,284	(1,312)
Interest rate contracts:				
- Futures		12,867,000	296	(9,768)
- Swaps		3,522,047	12,565	(20,529)
Equity contracts:				
- Options		106,922	752	(752)

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 39 Financial instruments (continued)

### (c) Fair value of financial instruments (continued)

#### Foreign exchange rate and interest rate related contracts (continued)

	The Group 2004		The Company 2004	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>On-balance sheet items</b>				
<b>Financial assets:</b>				
Dealing securities	2,616,223	2,700,508	-	-
Investments	5,534,850	5,580,698	-	-
Loans, advances and financing	23,271,945	23,772,427	-	-
Other assets*	1,425,269	1,407,198	-	-
<b>Financial liabilities:</b>				
Deposits from customers	37,783,993	37,807,934	-	-
Long term liabilities	300,000	306,308	300,000	306,308

\* In respect of financial year ended 2004, the carrying amount was not written down to the fair value, as the Directors were of the opinion that the amount was recoverable, as it was substantially deposit held with BNM. The deposit has matured in 2005 and the amount has been received in full.

	Notional amount RM'000	The Group 2004 Positive mark- to-market RM'000	Negative mark- to-market RM'000
<b>Off-balance sheet items</b>			
<b>Derivative financial instruments</b>			
Foreign exchange contracts:			
- Forward contracts	4,714,804	20,093	(19,815)
Interest rate contracts:			
- Swaps	2,083,591	7,678	(17,426)

The fair value of derivative financial instruments become favourable (positive mark-to-market) or unfavourable (negative mark-to-market) as a result of fluctuation in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

In addition, fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of MASB 24 which requires the fair value information to be disclosed. These include other receivables, statutory deposits with BNM, tax recoverable, investment in subsidiary companies, investment in associated companies, property, plant and equipment and deferred tax assets.

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 40 Acquisition of subsidiary company

During the year, Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary of Hong Leong Assurance Berhad, acquired 100% of the paid-up capital of Dao Heng Insurance Co., Limited for a total consideration of HKD152,551,910 (equivalent to RM74,549,360).

### Effect of acquisition

The effect of the acquisition on the financial results of the Group during the financial year is as follows:

	2005 RM'000
Revenue	34,627
Direct cost	(15,369)
Gross operating profit	19,258
Other operating income	6,635
Personnel costs	(9,201)
Other operating expenses	(6,174)
Profit before taxation	10,518
Taxation	(1,024)
Profit after taxation	9,494
Minority interest	-
Profit attributable to shareholders	9,494

The effect of the acquisition on the financial position of the Group as at 30 June 2005 is as follows:

	2005 RM'000
Cash and short term funds	57,102
Investments	15,367
Trade and other receivables	6,854
Property, plant and equipment	15,508
Payables and other liabilities	(7,941)
Provision for claims	(5,546)
Provision for taxation	(944)
Insurance funds	(14,620)
Deferred tax liabilities - Net	(251)
Increase in Group's net assets	65,529

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 40 Acquisition of subsidiary company (continued)

Details of net assets acquired, goodwill and cash flow arising from the acquisition are as follows:

	At date of acquisition RM'000
Cash and short term funds	76,177
Investments	13,575
Trade and other receivables	6,476
Property, plant and equipment	15,930
Payables and other liabilities	(29,362)
Provision for claims	(6,226)
Provision for taxation	(1,097)
Insurance funds	(14,300)
Deferred tax liabilities - Net	(238)
	<b>60,935</b>
Goodwill on acquisition	13,614
Purchase consideration discharged by cash	74,549
Less: cash and short-term funds acquired	(76,177)
Cash outflow on acquisition	(1,628)

## 41 Disposal

On 29 March 2005, HLG Capital disposed of its subsidiary company, HLG Philippines Inc. together with its associated company, HLG Asset Management Philippines Inc., for a total consideration of Peso 141,433,000 (equivalent to RM9,705,000).

The effect of the disposal on the financial results of the Group is as follows:

	At date of disposal RM'000	2004 RM'000
Operating revenue	-	59
Other operating expenses	(83)	(4)
(Loss)/profit from operations	(83)	55
Share of results of an associated company	(61)	(399)
Loss before taxation	(144)	(344)
Taxation	-	(4)
Net loss for the year	(144)	(348)
Cash flows form operating activities	-	320
Cash flows form investing activities	-	(9,227)
Cash flows from financing activities	-	(9)
Net decrease in cash and cash equivalents	-	(8,916)
Cash and cash equivalents at beginning of year	18	8,934
Cash and cash equivalents at end of year	18	18

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 41 Disposal (continued)

The effect of the disposal on the financial position of the Group is as follows:

	At date of disposal RM'000
Cash and short term funds	18
Investments in and advances to associated company	13,093
Payables and other liabilities	(3,411)
Fair value of net assets disposed	9,700
Total disposal proceeds	(9,705)
Gain on disposal to the Group	(5)
The cash inflow on disposal is determined as follows:	
Proceeds from disposal - cash consideration	9,705
Cash and cash equivalents of subsidiary disposed	(18)
Net cash inflow from disposal	9,687

There were no tax charge or credit arising from the gain on disposal of subsidiary and associated company.

## 42 Equity compensation benefits

Eligible executives of the Company and Group are entitled to the Executive Share Option Scheme ("ESOS" or "Scheme"). Details of the scheme are disclosed in the Directors' Report.

The movements in the number of options over the shares of the Company are as follows:

	Number of unissued ordinary shares of RM1.00 each			
	As at 1-7-2004	Options Lapsed	Options Exercised	As at 30-6-2005
Option price of RM2.65	763,020	(33,084)	(729,936)	-
Option price of RM2.96	49,940	(60)	(49,880)	-
Option price of RM4.43	522,434	(508,784)	(13,650)	-
	1,335,394	(541,928)	(793,466)	-
Number of unissued ordinary shares of RM1.00 each				
	As at 1-7-2003	Options Lapsed	Options Exercised	As at 30-6-2004
Option price of RM2.65	2,163,729	(5,512)	(1,395,197)	763,020
Option price of RM2.96	131,440	-	(81,500)	49,940
Option price of RM4.43	550,668	(2,568)	(25,666)	522,434
	2,845,837	(8,080)	(1,502,363)	1,335,394

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 42 Equity compensation benefits (continued)

(i) There were no options on ordinary shares satisfied via share issuance during the year.

	The Group and Company	
	2005	2004
	RM'000	RM'000
Ordinary share capital - at par	-	734
Share premium	-	1,237
Proceeds received on exercise of share options for shares issued	-	1,971
Fair value at exercise date of shares issued	-	3,729

In the previous financial year, 734,421 options were satisfied via share issuance and 767,942 option were satisfied by way of a transfer of shares from the Trustee's Account.

(ii) During the financial year, 729,936 options on ordinary shares of RM2.65 per share, 49,880 options on ordinary shares of RM2.96 per share and 13,650 options on ordinary shares of RM4.43 per share were satisfied by way of a transfer of shares from the Trustee's Account under the ESOS to the option holders as described below.

	The Group and Company	
	2005	2004
	RM'000	RM'000
Proceeds received on exercise of share options for shares transferred	2,142	2,081
Fair value at exercise date of shares transferred	3,603	3,741

A trust has been set up for the ESOS and is administered by an appointed trustee. The trustee will be entitled from time to time to accept financial assistance from the Company and the subsidiary company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's stocks from the open market for the purposes of this trust. The financial assistance given to the trustee for the benefit of ESOS holders is recorded as "Other receivables" in the balance sheet. The cost of operating the ESOS scheme is charged to the income statement.

A loan of RM0.9 million and RM10 million have been granted to the trustee by the Company and the subsidiary company respectively for the purchase of such number of the Company's shares. The amount due from trustee as at 30 June 2005 is RM1,916,000 (2004:6,430,000) and is included in Other Assets. The loan is unsecured, interest free with no fixed repayment terms.

The number and market values of the ordinary shares held by the trustee are as follows:

	2005	
	Number of ordinary shares of RM1.00 each	Market value RM'000
<b>For trust shares held</b>		
At 1 July	1,332,058	5,048
Shares transferred at exercise date	(793,466)	3,603
At 30 June	538,592	2,090
<b>2004</b>		
	Number of ordinary shares of RM1.00 each	Market value RM'000
For trust shares held		
At 1 July	-	-
Shares purchased	2,100,000	10,935
Shares transferred at exercise date	(767,942)	3,741
At 30 June	1,332,058	5,048

# Notes to the financial statements

for the financial year ended 30 June 2005 (continued)

## 43 Significant events during the financial year

- (a) On 1 August 2004, Hong Leong Bank Berhad ("the Bank" or "HLB") had effected its merger with its subsidiary company, Hong Leong Finance Berhad ("HLF") via a transfer of finance company business excluding the leasing business to the Bank. The leasing business of HLF was transferred to Hong Leong Leasing Sdn Bhd on the same day. The scheme of merger was carried out after obtaining Bank Negara Malaysia's ("BNM") approval and Vesting Orders from the High Court of Malaya on 16 July 2004 and 27 July 2004 respectively.
- (b) On 20 November 2004, Visia Nominees Sdn Bhd, an indirect wholly-owned subsidiary company of HLB which was placed under member's voluntary liquidation had been dissolved.
- (c) On 20 December 2004, HLG Capital Berhad ("HLG Capital") had acquired the entire equity interest comprising 2 ordinary shares of RM1.00 each in HLG Capital Advisory Sdn Bhd (formerly known as HLG Nominees Sdn Bhd) from HLG Securities Sdn Bhd, a wholly-owned subsidiary company of HLG Capital, for cash at par.
- (d) On 25 March 2005, the Company had placed Heritage Vest (M) Sdn Bhd, a wholly-owned subsidiary company of the Company, under members' voluntary liquidation.
- (e) On 29 March 2005, HLG Capital had disposed off the entire equity interest comprising 51 million shares in HLG Philippines, Inc to DHG Capital Holdings, Inc ("DHG") for a cash consideration of Peso 141,433,000 (equivalent to RM9,705,000).
- (f) On 6 April 2005, Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary company of Hong Leong Assurance Berhad, had completed the acquisition of Dao Heng Insurance Co., Limited ("DHI") for a cash consideration of HKD152,551,910 (equivalent to RM74,549,360).
- (g) On 28 March 2005, the Bank had incorporated Hong Leong Islamic Bank Berhad ("HLIB"), a wholly-owned subsidiary of the Bank, for the purpose of undertaking the Islamic Banking business pursuant to Subsection 3(4) of the Islamic Banking Act, 1983.  
The Bank had, on 28 June 2005, announced that Minister of Finance had granted an Islamic banking licence to HLIB and a Vesting Order had also been obtained from the High Court of Malaya for the transfer and vesting of the Islamic banking business of HLB to HLIB. Effective 1 July 2005, the Bank had conducted its Islamic banking business through HLIB.
- (h) On 6 June 2005, the Bank announced that BNM had no objection to a proposed issuance of United States Dollar Subordinated Debt by the Bank to raise funds to be utilities for general banking and other corporate purposes ("Proposed Issuance"). The Proposed Issuance had been approved by Securities Commission on 22 June 2005.
- (i) On 16 June 2005, the Bank announced that it had entered into a Sale and Purchase Agreement with HLCM Capital Sdn Bhd ("HLCM Capital") to dispose of its 100% equity interest in Credit Corporation (Malaysia) Sdn Bhd comprising two (2) ordinary shares of RM1.00 each to HLCM Capital for cash consideration of RM5,000.00 ("Proposed Disposal"). The Proposed Disposal was completed on 25 August 2005.
- (j) On 17 June 2005, the Company had placed Hong Leong Equities (Hong Kong) Limited, a wholly-owned subsidiary of the Company, under members' voluntary liquidation.

## 44 Subsequent events subsequent to balance sheet date

On 3 August 2005, the Bank issued USD200 million in aggregate principal amount of Subordinated Bonds ("the Bonds") due 2015 callable with step-up in 2010. The Bonds bear interest at the rate of 5.25% per annum from, and including 3 August 2005 to, but excluding 3 August 2010 and, thereafter, at a rate per annum equal to the US Treasury Rate plus 2.717%. The interest is payable semi-annually in arrears on 3 February and 3 August each year, commencing on 3 February 2006. The Bonds were issued at a price of 99.848 per cent of the principal amount of the Bonds. The Bonds will, subject to the prior written approval of Bank Negara Malaysia, if required, be redeemable in whole but not in part, at the option of the Bank on 3 August 2010 or in the event of certain changes affecting taxation in Malaysia or any other jurisdiction where the Bank has to pay tax in relation to the Bonds, at their principal amount plus accrued interest.

The Bonds constitute unsecured liabilities of the Bank, and are subordinated in right of payment to the deposit liabilities and all other liabilities of the Bank in accordance with the terms and conditions of the issue and qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

## 45 General information

The financial statements were authorised for issue by the Board of Directors of the Company in accordance with a resolution of the Directors on 30 August 2005.



## Statement by directors

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

We, Tsui King Chung, David and Yvonne Chia, being two of the Directors of Hong Leong Credit Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on page 26 to 95 are drawn up so as to give a true and fair view of:

- (a) the state of affairs of the Group and of the Company as at 30 June 2005 and of the results their operations for the year ended on that date; and
  - (b) the cash flows of the Group and the Company for the year then ended on that date,
- in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia.

On behalf of the Board

Tsui King Chung, David

Yvonne Chia

Kuala Lumpur  
30 August 2005

## Statutory declaration

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

I, Lai Shin Fah @ David Lai, being the officer primarily responsible for the financial management of Hong Leong Credit Berhad, do solemnly and sincerely declare that the financial statements set out on pages 26 to 95 are in my opinion, 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 above named Lai Shin Fah @ David Lai )  
at Kuala Lumpur in Wilayah Persekutuan )  
on 30 August 2005 ) Lai Shin Fah @ David Lai

Before me,  
Teong Kian Meng  
Pesuruhjaya Sumpah  
Commissioner for Oaths

# Auditors' report

## Report of the auditors to the members of Hong Leong Credit Berhad

(Company no: 8024-W)  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 26 to 95.

These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with the approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, and the MASB approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965, to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and of the Company as at 30 June 2005 and of the results and cash flows of the Group and the Company for the financial year ended on that date; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of subsidiary companies of which we have not acted as auditors are indicated in Note 11 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

**PricewaterhouseCoopers**  
(AF: 1146)  
Chartered Accountants

**Dato' Ahmad Johan Bin Mohammad Raslan**  
(1867/09/04 (J))  
Partner

Kuala Lumpur  
30 August 2005

# Other information

## 1 Material Contracts

Save for the following, 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 20, Part A, Appendix 9C of the Listing Requirements of the Bursa Malaysia Securities Berhad:-

- Sale and Purchase Agreement dated 11 January 2005 between Allstate Health Benefits Sdn Bhd ("AHB"), a wholly-owned subsidiary of Hong Leong Assurance Berhad ("HLA"), which in turn is a wholly-owned subsidiary of Hong Leong Credit Berhad ("HLC"), and Dao Heng Enterprises Limited, a wholly-owned subsidiary of Guoco Group Limited ("GGL"), for the acquisition of 500,000 ordinary shares of HKD100.00 each representing 100% equity interest in Dao Heng Insurance Co., Limited by AHB for a cash consideration of HKD152,551,910 (equivalent to RM74,549,360). The acquisition was completed on 6 April 2005.

Hong Leong Company (Malaysia) Berhad is a major shareholder of HLC and GGL. GGL is a major shareholder of HLC. YBhg Tan Sri Quek Leng Chan is a Director and deemed major shareholder of HLA, HLC and GGL. He also has direct interests in the shares of HLC and GGL. Mr Kwek Leng Beng and Mr Quek Leng Chye, deemed major shareholders of HLC, also have direct interests in HLC. YBhg Tan Sri Quek Leng Chan and Mr Quek Leng Chye are brothers.

## 2. Utilisation of proceeds Commercial Paper ("CPs")/Medium Term Notes ("MTNs") Programme

The Company entered into a CPs/MTNs programme in 2002. As at 12 September 2005, the Company has outstanding nominal values of CPs of RM70,000,000 and MTNs of RM200,000,000.

The CPs, which has a nominal value of RM70,000,000, were raised for general working capital purposes.

## 3 Analysis of shareholdings as at 12 September 2005

Authorised share capital	:	RM2,000,000,000
Issued & paid-up capital	:	RM1,040,722,242
Class of shares	:	Ordinary shares of RM1.00 each
Voting rights		
- on show of hands	:	1 vote
- on a poll	:	1 vote for each share held

### Distribution schedule of shareholdings

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	131	2.31	4,197	0.00
100 – 1,000	956	16.86	832,395	0.08
1,001 – 10,000	3,174	55.99	13,422,417	1.29
10,001 – 100,000	1,173	20.69	34,892,282	3.35
100,001 – less than 5% of issued shares	230	4.06	515,022,046	49.49
5% and above of issued shares	5	0.09	476,548,905	45.79
	5,669	100.00	1,040,722,242	100.00

### Thirty largest shareholders

Names of Shareholders	No. of Shares	%
1. Assets Nominees (Asing) Sdn Bhd - Guoco Assets Sdn Bhd	225,393,246	21.66
2. Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	69,050,559	6.63
3. HSBC Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	63,955,000	6.15
4. RHB Merchant Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	61,150,100	5.88

# Other information

(continued)

## 3 Analysis of shareholdings as at 12 September 2005 (continued)

### Thirty largest shareholders (continued)

Names of Shareholders	No. of Shares	%
5. AMMB Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	57,000,000	5.48
6. Bumiputra-Commerce Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	48,000,000	4.61
7. UOBM Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	47,300,000	4.55
8. HLG Nominee (Asing) Sdn Bhd - Guoco Investments (Bermuda) Limited	41,686,700	4.01
9. RHB Capital Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	35,000,000	3.36
10. EB Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	31,000,000	2.98
11. Malaysia Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	31,000,000	2.98
12. Mayban Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	31,000,000	2.98
13. Citicorp Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	17,612,749	1.69
14. Employees Provident Fund Board	17,241,999	1.66
15. Scotia Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	12,916,960	1.24
16. PAB Nominee (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	12,600,000	1.21
17. RC Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	10,411,200	1.00
18. Public Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	10,080,000	0.97
19. Citicorp Nominees (Asing) Sdn Bhd - Goldman Sachs International	9,586,500	0.92
20. Bank of Tokyo-Mitsubishi (Malaysia) Berhad - Hong Leong Company (Malaysia) Berhad	8,400,000	0.81
21. Citicorp Nominees (Asing) Sdn Bhd - Citigroup Global Markets Limited	7,229,700	0.69
22. Low Poh Weng	6,620,000	0.64
23. PAB Nominee (Tempatan) Sdn Bhd - Quek Leng Chan	6,057,000	0.58
24. YBhg Tan Sri Dato' Seri Khalid Ahmad Bin Sulaiman	5,544,000	0.53
25. HLG Nominee (Tempatan) Sdn Bhd - Chut Nyak Isham Bin Nyak Ariff	5,150,000	0.49

# Other information

(continued)

## 3 Analysis of shareholdings as at 12 September 2005 (continued)

### Thirty largest shareholders (continued)

Names of Shareholders	No. of Shares	%
26. RHB Nominees (Asing) Sdn Bhd - Cheng Fu Zay	4,899,308	0.47
27. Chua Holdings Sdn Bhd	4,761,549	0.46
28. Hong Bee Hardware Company Sdn Berhad	4,523,400	0.43
29. Pertubuhan Keselamatan Sosial	4,000,000	0.38
30. RHB Capital Nominees (Tempatan) Sdn Bhd - Poh Soon Sim	4,000,000	0.38
	<hr/> 893,169,970	<hr/> 85.82

### Substantial shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 12 September 2005 are as follows:

Names of Shareholders	Direct		Indirect	
	No. of shares	%	No. of shares	%
Hong Leong Company (Malaysia) Berhad	546,476,568	52.51	267,290,730*	25.68
Tan Sri Quek Leng Chan	11,046,600	1.06	813,767,298**	78.19
HL Holdings Sdn Bhd	-	-	813,767,298**	78.19
Kwek Holdings Pte Ltd	-	-	813,767,298**	78.19
Kwek Leng Beng	1,241,321	0.12	813,767,298**	78.19
Hong Realty (Private) Limited	-	-	813,767,298**	78.19
Hong Leong Investment Holdings Pte Ltd	-	-	813,767,298**	78.19
Davos Investment Holdings Private Limited	-	-	813,767,298**	78.19
Kwek Leng Kee	-	-	813,767,298**	78.19
Quek Leng Chye	1,925,100	0.18	813,767,298**	78.19
Guoco Assets Sdn Bhd	225,393,246	21.66	-	-
GuoLine Overseas Limited	-	-	267,079,946#	25.66
GuoLine Group Limited	-	-	267,079,946#	25.66
GuoLine Capital Assets Limited	-	-	267,079,946#	25.66

Notes:

\* Deemed interest through subsidiary corporations and inclusive of shares held by Guoco Assets Sdn Bhd

\*\* Deemed interest through Hong Leong Company (Malaysia) Berhad

# Deemed interest through Guoco Assets Sdn Bhd and a subsidiary company

## 4 Analysis of 1997/2007 warrant holdings as at 12 September 2005

No. of 1997/2007 Warrants issued	:	12,340,663
No. of 1997/2007 Warrants outstanding	:	12,338,534
Voting rights		
- on show of hands	:	1 vote
- on a poll	:	1 vote for each warrant held

### Distribution schedule of warrant holdings

Size of Holdings	No. of 1997/2007 Warrant holders		No. of 1997/2007 Warrants	
		%		%
Less than 100	134	10.83	9,171	0.07
100 – 1,000	194	15.68	128,289	1.04
1,001 – 10,000	723	58.45	2,768,883	22.44
10,001 – 100,000	165	13.34	4,562,389	36.98
100,001 – less than 5% of outstanding warrants 1997/2007	20	1.62	4,199,202	34.03
5% and above of outstanding warrants 1997/2007	1	0.08	670,600	5.44
	<hr/> 1,237	<hr/> 100.00	<hr/> 12,338,534	<hr/> 100.00

# Other information

(continued)

## 4 Analysis of 1997/2007 warrant holdings as at 12 September 2005 (continued)

### Thirty largest warrant holders

Names of 1997/2007 Warrantheolders	No. of 1997/2007 Warrants	%
1. AM Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	670,600	5.44
2. Cimsec Nominees (Asing) Sdn Bhd - Tan Cheng Hwee	568,836	4.61
3. HDM Nominees (Asing) Sdn Bhd - Lim Cheo Tee	414,661	3.36
4. HSBC Nominees (Asing) Sdn Bhd - Global Base Industries Limited	330,700	2.68
5. Olive Lim Swee Lian	306,216	2.48
6. HDM Nominees (Asing) Sdn Bhd - Lim Ke	258,344	2.10
7. Mayban Nominees (Tempatan) Sdn Bhd - Lim Beng Choo	242,000	1.96
8. AM Nominees (Tempatan) Sdn Bhd - Pertubuhan Keselamatan Sosial	221,100	1.79
9. Cimsec Nominees (Asing) Sdn Bhd - Saimee Bin Jumaat	189,175	1.53
10. RHB Nominees (Asing) Sdn Bhd - Seah Boon Hwa	172,148	1.40
11. ECM Libra Securities Nominees (Tempatan) Sdn Bhd - Yeap Gek @ Yeap Poh Chim	168,000	1.36
12. Wong Han Yong	168,000	1.36
13. HLB Nominees (Asing) Sdn Bhd - Kwek Leng Hai	160,800	1.30
14. Mayban Nominees (Tempatan) Sdn Bhd - Tay Ong Ngo @ Tay Boon Fang	155,500	1.26
15. Ong Tee John	153,004	1.24
16. Lim Kee Yek	136,949	1.11
17. HDM Nominees (Asing) Sdn Bhd - Ang Theng Ho	131,100	1.06
18. Kenanga Nominees (Tempatan) Sdn Bhd - Than Ah Loh @ Than Boon Chong	123,000	1.00
19. F.I.T Nominees (Asing) Sdn Bhd - Chua Har Hua	121,340	0.98
20. HDM Nominees (Asing) Sdn Bhd - Ang Cheng Kiat	113,506	0.92
21. Ke-Zan Nominees (Asing) Sdn Bhd - Yong Show Chiang	100,200	0.81
22. Gooi Seong Lim	100,000	0.81
23. Ong Kok San	94,590	0.77
24. Tan Puay Hua	94,590	0.77

# Other information

(continued)

## 4 Analysis of 1997/2007 warrant holdings as at 12 September 2005 (continued)

### Thirty largest warrant holders (continued)

Names of 1997/2007 Warrant holders	No. of 1997/2007 Warrants	%
25. Tay Ong Ngo @ Tay Boon Fang	93,000	0.75
26. PM Nominees (Tempatan) Sdn Bhd - Ng Faai @ Ng Yoke Pei	86,900	0.71
27. Kok Boon Lim	77,500	0.63
28. Lee Kwong Joo	76,703	0.62
29. Chan Thiam Fook	70,800	0.57
30. Saw Wah Theng	70,000	0.57
	5,669,262	45.95

## 5. Directors' interests as at 12 September 2005

Subsequent to the financial year end, there is no change as at 12 September 2005 to the Directors' interests in the ordinary shares/warrants/options/irredeemable convertible unsecured loan stocks of the Company and/or its related corporations (other than wholly-owned subsidiary companies), appearing in the Directors' Report on pages 20 to 22 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/*new shares to be issued arising from the exercise of warrants/options/irredeemable convertible unsecured loan stocks			
	Direct		Indirect	
	No. of shares	%	No. of shares	%
<b>YBhg Tan Sri Quek Leng Chan</b>				
Hume Industries (Malaysia) Berhad	No Change		118,110,828	63.91
Hong Leong Bank Berhad	No Change		953,685,600	62.42@
Hong Leong Industries Berhad ("HLI")	No Change		131,299,900	60.22
			32,026,636*	10.90^
Camerlin Group Berhad ("CGB")	-	-	240,172,779	61.55
			3,901,252*	0.84#
<b>Dr Poh Soon Sim</b>				
Narra Industries Berhad	980,400	1.58	-	-

### Notes:

@ Change of percentage arising from share buy back.

^ Based on the enlarged share capital of HLI assuming full exercise of warrants 1996/2006 and irredeemable convertible unsecured loan stocks 2002/2007 as at 12 September 2005.

# Based on the enlarged share capital of CGB assuming full exercise of warrants 1997/2007 and irredeemable convertible unsecured loan stocks 2002/2007 as at 12 September 2005.

# Other information

(continued)

## 6 List of properties

Location	Tenure	Description of property held	Gross area (sq ft)	Approx. age (years)	Net book value (RM'000)	Date of acquisition
1, Light Street Georgetown 10200 Pulau Pinang	Freehold	Branch premises	20,594	71	7,523	30/12/1986
15-G-1, 15-1-1 & 15-2-1 15, Medan Kampung Relau Bayan Point 11900 Pulau Pinang	Freehold	Branch premises	9,968	6	2,527	26/6/1997
42, Jalan Pending 93450 Kuching Sarawak	Leasehold - 999 years (31/12/2779)	Branch premises	4,425	23	2,429	27/12/1983
133, 135 & 137 Jalan Kampong Nyabor 96000 Sibuluan Sarawak	Freehold	Branch premises	4,871	13	3,263	28/12/1992
Jungle land at Sungai Lisut Rejang Sarawak Occupation Ticket 612 of 1931	Leasehold - 99 years (31/12/2026)	Jungle land	1,217,938	n/a	1	31/12/1938
25, Jalan Tun Ismail 25000 Kuantan Pahang Darul Makmur	Freehold	Branch premises	1,600	14	1,551	29/6/1996
69, 70 & 71, Jalan Dato' Bandar Tunggal 70000 Seremban Negri Sembilan Darul Khusus	Freehold	Branch premises	6,000	Pre-war	1,487	27/12/1994
26, Lorong Rahim Kajai 14 Taman Tun Dr Ismail 60000 Kuala Lumpur	Freehold	Branch premises	3,750	19	576	30/12/1986
120-122, Jalan Mersing 86000 Kluang Johor Darul Takzim	Leasehold - 99 years (22/8/2063)	Branch premises	3,355	39	764	31/5/1990
100, Jalan Gurney 72100 Bahau Negri Sembilan Darul Khusus	Freehold	Branch premises	5,107	19	2,640	25/6/1992
12, 14 & 16, Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	4,174	14	3,976	25/6/1992
6, Jalan Merdeka 96100 Sarikei Sarawak	Leasehold - 60 years (31/12/2029)	Branch premises	2,240	36	123	18/10/1969
Vacant land at Jalan Peace Kuching, Lot 2081 Section 64 KTLA, Sarawak	Leasehold - 99 years (31/12/2037)	Vacant land	22,172	n/a	42	31/12/1967
63 & 65, Jalan SS 23/15 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,760	10	3,824	28/4/1997
24, Medan Taming 2 Taman Taming Jaya 43300 Balakong Selangor Darul Ehsan	Freehold	Branch premises	3,037	9	1,314	28/4/1997
1, Jalan Takal 15/21 Seksyen 15 40000 Shah Alam Selangor Darul Ehsan	Leasehold - 99 years (29/6/2086)	Branch premises	2,625	18	1,370	26/6/1997
Lots 35948 & 3595 Jalan Baru Pak Sabah 23000 Dungun Terengganu Darul Iman	Leasehold - 84 years (2/2/2079)	Branch premises	3,199	11	246	26/6/1997



# Other information

(continued)

## 6 List of properties (continued)

Location	Tenure	Description of property held	Gross area (sq ft)	Approx. age (years)	Net book value (RM'000)	Date of acquisition
Sublot 1 & 2 on parent lot 2633 Bintulu Siwa District Bintulu, Sarawak	Leasehold - 60 years (12/2/2056)	Branch premises	2,582	10	1,397	26/6/1997
Lot 34, Industrial Land 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Warehouse	96,219	11	2,775	26/1/1995
1540, Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman	Leasehold - 55 years (28/2/2028)	Branch premises	10,619	30	63	30/6/1977
9A & 9B, Jalan Kampong Baru 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	9,320	12	976	1/1/1994
31, Jalan Ibrahim 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	2,448	21	709	1/7/1988
45, Jalan Burma 10500 Pulau Pinang	Freehold	Branch premises	14,277	27	2,344	24/11/1978
33A-C, Lintang Angsana Bandar Baru Air Hitam 11500 Pulau Pinang	Leasehold - 83 years (8/4/2082)	Branch premises	4,394	10	543	26/12/1995
452, Jalan Pinang 10000 Pulau Pinang	Freehold	Branch premises	2,874	9	1,240	1/12/1996
55-57, Jalan Yang Kalsom 30250 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	11,720	26	1,241	1/10/1984
27, Jalan Dewangsa 31000 Batu Gajah Perak Darul Ridzuan	Leasehold - 79 years (26/2/2078)	Branch premises	4,694	10	316	24/11/1995
232, Jalan Bercham Taman Ria 31400 Ipoh Perak Darul Ridzuan	Leasehold - 93 years (23/11/2092)	Branch premises	2,540	10	311	24/10/1995
75, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	1,900	8	672	15/6/1998
80 & 82, Jalan Othman 1/14 46000 Petaling Jaya Selangor Darul Ehsan	Leasehold - 90 years (15/6/2089)	Branch premises	9,062	15	1,324	1/6/1994
36, Jalan Midah 1 Taman Midah, Cheras 56000 Kuala Lumpur	Freehold	Branch premises	2,700	18	225	30/11/1984
19, Jalan 54, Desa Jaya 52100 Kepong Selangor Darul Ehsan	Leasehold - 99 years (8/3/2081)	Branch premises	5,859	23	386	29/11/1985
55, Jalan Pasar 55100 Kuala Lumpur	Freehold	Branch premises	4,313	25	342	1/4/1980
Lot 111, Jalan Mega Mendung Kompleks Bandar Off Jalan Klang Lama 58200 Kuala Lumpur	Leasehold - 99 years (11/10/2076)	Branch premises	4,978	25	546	31/7/1988
161, Jalan Imbi 55100 Kuala Lumpur	Freehold	Branch premises	2,454	9	2,632	14/2/1996

## Other information

(continued)

### 6 List of properties (continued)

Location	Tenure	Description of property held	Gross area (sq ft)	Approx. age (years)	Net book value (RM'000)	Date of acquisition
109, Jalan SS 21/37 Damansara Utama 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	6,446	9	1,724	23/9/1996
8A-C, Jalan Station 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	12,854	12	527	22/10/1977
109, Main Road 83700 Yong Peng Johor Darul Takzim	Freehold	Branch premises	2,740	17	217	1/9/1988
31 & 32, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	8,932	13	555	5/3/1996
103, Jalan Rahmat 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	12,222	31	699	30/6/1977
26, Jalan Mersing 80050 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	7,040	21	1,455	22/5/1995
21, Jalan Tun Razak 27600 Raub Pahang Darul Makmur	Freehold	Branch premises	4,480	19	441	26/6/1986
1, Bentong Heights 28700 Bentong Pahang Darul Makmur	Freehold	Branch premises	5,432	37	42	30/6/1977
36, Main Road Tanah Rata 39000 Cameron Highland Pahang Darul Makmur	Leasehold - 99 years (24/11/2039)	Branch premises	1,728	65	171	30/8/1982
16A, Jalan Sultan Ismail 20200 Kuala Terengganu Terengganu Darul Iman	Leasehold - 99 years (31/8/2003)	Branch premises	2,125	8	1,374	15/6/1998
15-G-12A, Medan Kampung Relau Bayan Point Bandar Bayan Baru 11900 Pulau Pinang	Freehold	Branch premises	5,708	6	1,369	15/7/1999
W-1-0, W-2-0 & W-1-1 Subang Square Business Centre Jalan SS15/4G 47500 Subang Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,545	6	1,908	18/12/1999
2828-G-02 & 2828-1-02 Jalan Bagan Luar 12000 Butterworth Pulau Pinang	Freehold	Branch premises	12,173	6	3,618	18/12/1999
Lots 568-G-17 & 568-1-17 Kompleks Mutiara 3 1/2 Mile Jalan Ipoh 51200 Kuala Lumpur	Freehold	Branch premises	4,945	6	3,330	23/11/1999
Plot No 20, Jalan Bidor Raya 35500 Bidor Perak Darul Ridzuan	Freehold	Branch premises	3,243	6	556	23/11/1999
1, Persiaran Greentown 2 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises	7,870	5	2,161	23/11/1999

# Other information

(continued)

## 6 List of properties (continued)

Location	Tenure	Description of property held	Gross area (sq ft)	Approx. age (years)	Net book value (RM'000)	Date of acquisition
Lots 39 & 40 Kompleks Munshi Abdullah 75100 Melaka	Leasehold - 99 years (24/2/2084)	Branch premises	5,988	6	1,549	31/5/1991
Lots 17 & 18, Mukim Serdang Daerah Bandar Baharu Kedah Darul Aman	Freehold	Branch premises	5,840	4	423	20/9/2000
133 & 135, Jalan Gopeng 31900 Kampar Perak Darul Ridzuan	Freehold	Branch premises	4,700	4	366	13/12/2000
65-67, Jalan Tun HS Lee 50000 Kuala Lumpur	Freehold	Branch premises	2,223	9	5,052	14/10/1996
34, Jalan Yong Shook Lin 46200 Petaling Jaya Selangor Darul Ehsan	Leasehold - 99 years (09/09/2059)	Branch premises	1,875	12	624	26/11/1993
8, Jalan Carpenter Street 93000 Kuching Sarawak	Leasehold - 837 years (31/12/2775)	Branch premises	1,860	36	149	25/8/1969
64, Jalan Tun Mustapha 87007 Labuan	Leasehold - 999 years (31/12/2775)	Branch premises	1,370	14	647	30/5/1991
486, Jalan Pudu 55100 Kuala Lumpur	Freehold	Vacant premises	2,396	8	1,394	22/8/1997
Lot 3088, Lanang Road Sibu Town District Sarawak	Leasehold - 60 years (31/12/2028)	Godown	3,210	37	33	25/11/1968
Island Road Sibu Lot 454, Block 5 Sibu Town District Sarawak	Leasehold - 60 years (30/11/2055)	Vacant premises	10,587	9	1,279	26/2/1996
1A, Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 years (17/07/2083)	4 Apartment units held as investment property	6,911	12	2,396	30/6/1993
13-2B 2nd Floor Jalan Perdana 6/6 Pandan Perdana 55300 Kuala Lumpur	Leasehold - 99 years (11/12/2088)	4 Apartment units held as investment property	468	1	60	31/12/2004
B28 Lorong Tun Ismail 1 25000 Kuantan Pahang Darul Makmur	Freehold	Branch premises	5,610	12	523	21/2/1993
22B & 22C, Jalan Rubber Lots 342 & 323 Section 9 KTL D 93400 Kuching Sarawak	Leasehold - 999 years (31/12/2996)	Branch premises	20,396	8	3,821	27/2/1997
1, Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises	5,246	10	741	4/12/1995
Bangunan HLA 17 Leboh Bishop 10200 Penang	Freehold	Branch premises	10,653	23	3,484	20/12/1982
Bangunan HLA 7, Jalan Yayasan 86000 Kluang Johor Darul Taksim	Leasehold - 99 years (23/03/2084)	Branch premises held as investment property	6,019	16	631	18/12/1989

## Other information

(continued)

### 6 List of properties (continued)

Location	Tenure	Description of property held	Gross area (sq ft)	Approx. age (years)	Net book value (RM'000)	Date of acquisition
3, Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises held as investment property	8,846	10	746	4/12/1995
Lot 942, Jalan Parry 98000 Miri Sarawak	Leasehold - 60 Years (06/04/2057)	Branch premises held as investment property	5,496	8	1,000	4/12/1996
Medan Saujana 34600 Kamunting Taiping Perak Darul Ridzuan	Freehold	Branch premises held as investment property	7,423	6	750	6/10/1999
Mile 4, North Road Bandar Indah Sandakan Sabah	Freehold	Branch premises held as investment property	6,760	5	1,341	8/11/2001
Wisma Hong Leong 18 Jalan Perak 50450 Kuala Lumpur	Freehold	Office building held as investment property	333,594	>4	185,530	13/11/2001
Room 2302, 23/F Wing On House No.71 Des Voeux Road Central Hong Kong	Leasehold	Office premises	9,109	50	10,558	22/8/1991
Room 2301, 23/F Wing On House No.71 Des Voeux Road Central Hong Kong	Leasehold	Office premises	1,953	50	2,766	19/5/2004



# Hong Leong Credit Berhad (8024 - W)

A Member of the Hong Leong Group Malaysia  
(Incorporated in Malaysia)

## FORM OF PROXY

I/We \_\_\_\_\_

of \_\_\_\_\_

being a member / members of HONG LEONG CREDIT BERHAD, hereby appoint \_\_\_\_\_

of \_\_\_\_\_

or failing him/her \_\_\_\_\_

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 Thirty-sixth Annual General Meeting of the Company to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 8 November 2005 at 11.30 a.m. and at any adjournment thereof.

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

No	RESOLUTIONS	FOR	AGAINST
1.	To receive and consider the audited Financial Statements and Reports		
2.	To approve the payment of Directors' fees		
3.	To re-elect the following as Directors: (a) YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman (b) Dr Poh Soon Sim (c) Mr Lean Chee Yeow (d) Mr Low Teik Leong	(a) (b) (c) (d)	(a) (b) (c) (d)
4.	To re-elect the following as Directors pursuant to Section 129 of the Companies Act, 1965:- (a) YBhg Dato' Haji Kamarulzaman Bin Mohammed (b) YBhg General (Rtd) Tan Sri (Dr) Hashim bin Mohd Ali	(a) (b)	(a) (b)
5.	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration.		
6.	As a special business, to approve the ordinary resolution on authority to Directors to issue shares.		

Dated this ..... day of .....2005

Number of shares held

Signature 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. 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 6, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time for holding the meeting or adjourned meeting.