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**CIRCULAR TO SHAREHOLDERS**

in relation to the

**PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY  
TRANSACTIONS OF A REVENUE OR TRADING NATURE**

The resolutions in respect of the above proposal will be tabled at the forthcoming Annual General Meeting (“AGM”) of Hong Leong Financial Group Berhad (“HLFG”) to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Friday, 28 October 2011 at 10.30 a.m. or at any adjournment thereof. The Notice of AGM and the Form of Proxy are set out in HLF’s Annual Report for the financial year ended 30 June 2011, which is despatched together with this Circular.

This Circular is dated 6 October 2011

## DEFINITIONS

Except where the context otherwise requires, the following definitions apply throughout this Circular:

“Act”	:	Companies Act, 1965, as amended from time to time and any re-enactment thereof
“AGM”	:	Annual General Meeting
“Board” or “Directors”	:	Board of Directors of HLFG
“Bursa Securities”	:	Bursa Malaysia Securities Berhad
“Corporate Office Support Services”	:	The planning and support services provided by the HLFG Group including secretarial, legal, accounting, finance, tax, corporate planning, internal audit, human resources management, treasury and risk management, fund management, information technology related services, payroll administration, training services, productivity and quality improvement services and any other services as may be agreed between the parties from time to time
“ESOS”	:	Executive Share Option Scheme of HLFG
“Group Management And/Or Support Services”	:	Includes corporate advisory, secretarial and legal services; treasury and risk management services, internal audit, accounting and tax services, share registration, nominees, custodian and ESOS administration services, fund management, human resources management; training services, investment services, productivity and quality improvement services, planning and compliance services and any other services as may be agreed between the parties from time to time
“HLA”	:	Hong Leong Assurance Berhad, a 70% subsidiary of HLAH
“HLAH”	:	HLA Holdings Sdn Bhd, a wholly-owned subsidiary of HLFG
“HLB”	:	Hong Leong Bank Berhad, a 63.51% subsidiary of HLFG
“HLB Group”	:	HLB and its subsidiaries
“HLCM”	:	Hong Leong Company (Malaysia) Berhad, the holding company of HLFG with 77.31% equity interest
“HLFG” or “Company”	:	Hong Leong Financial Group Berhad
“HLFG Group”	:	HLFG and its unlisted subsidiaries (i.e. excluding HLB and HLCB and their respective subsidiaries)
“HLCB”	:	Hong Leong Capital Berhad (formerly known as HLG Capital Berhad), a 79.09% subsidiary of HLFG
“HLCB Group”	:	HLCB and its subsidiaries

## DEFINITIONS (Cont'd)

“HLMT”	:	Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad), a 65% subsidiary of HLAH
“LPD”	:	6 September 2011, being the latest practicable date prior to the printing of this Circular
“Main Market Listing Requirements”	:	Main Market Listing Requirements of Bursa Securities, as amended from time to time
“Proposed Shareholders’ Mandate”	:	Shareholders’ approval for a general mandate in relation to recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations of the HLF Group as set out in Section 2.3 herein
“RM” and “sen”	:	Ringgit Malaysia and sen respectively
“RRPT”	:	Related party transactions which are recurrent, of a revenue or trading nature and which are necessary for the day-to-day operations
“Securities”	:	Has the same meaning given in Capital Markets and Services Act 2007, as amended from time to time
“Services”	:	Includes sale, maintenance, marketing services, property management services, security guard services, fund management services and any other services as may be agreed between the parties from time to time
“Shares”	:	Ordinary shares of RM1.00 each in HLF Group

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Registered Office:  
Level 8, Wisma Hong Leong  
18 Jalan Perak  
50450 Kuala Lumpur

6 October 2011

**DIRECTORS:**

YBhg Tan Sri Quek Leng Chan (Chairman/Non-Executive/Non-Independent)  
Mr Choong Yee How (President & Chief Executive Officer/Non-Independent)  
Mr Quek Kon Sean (Executive Director/Non-Independent)  
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman (Non-Executive Director/Independent)  
Dr Poh Soon Sim (Non-Executive Director/Non-Independent)  
YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd) (Non-Executive Director/Independent)  
Ms Yvonne Chia (Non-Executive Director/Non-Independent)  
Ms Lim Tau Kien (Non-Executive Director/Independent)  
Ms Lim Lean See (Non-Executive Director/Independent)  
Mr Saw Kok Wei (Non-Executive Director/Independent)

To: The Shareholders of Hong Leong Financial Group Berhad

Dear Sir/Madam

**PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

**1. INTRODUCTION**

At the Company's AGM held on 26 October 2010, the Company obtained mandates from its shareholders for the HLFG Group to enter into RRPT with related parties. The said mandates shall, in accordance with the Main Market Listing Requirements, expire at the conclusion of the forthcoming AGM of the Company scheduled to be held on Friday, 28 October 2011 at 10.30 a.m. ("Said AGM"), unless it is renewed at the Said AGM.

In connection thereto, on 28 September 2011, the Company announced that your Directors propose to seek your approval for the Proposed Shareholders' Mandate at the Said AGM.

The purpose of this Circular is to provide you with details of the Proposed Shareholders' Mandate and to seek your approval for the proposed ordinary resolutions pertaining to the Proposed Shareholders' Mandate to be tabled at the Said AGM.

The Notice of the Said AGM together with the Form of Proxy are set out in HLFG's Annual Report for the financial year ended 30 June 2011, which is despatched together with this Circular.

**2. DETAILS OF THE PROPOSED SHAREHOLDERS' MANDATE**

**2.1 Provisions under the Main Market Listing Requirements**

Paragraph 10.09(2) of the Main Market Listing Requirements provides that a listed issuer may seek a mandate from its shareholders for RRPT of a listed issuer or its subsidiaries subject to the following:

- (a) the transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public;
- (b) the shareholder mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholder mandate during the financial year where the aggregate value is equal to or more than the threshold prescribed under paragraph 10.09(1) of the Main Market Listing Requirements;
- (c) the listed issuer's circular to shareholders for the shareholder mandate includes the information as may be prescribed by Bursa Securities. The draft circular must be submitted to Bursa Securities together with a checklist showing compliance with such information;
- (d) in a meeting to obtain the shareholder mandate, the interested director, interested major shareholder or interested person connected with a director or major shareholder; and where it involves the interest of an interested person connected with a director or major shareholder, such director or major shareholder, must not vote on the resolution to approve the transactions. An interested director or interested major shareholder must ensure that persons connected with him abstain from voting on the resolution approving the transactions; and
- (e) the listed issuer immediately announces to Bursa Securities when the actual value of a RRPT entered into by the listed issuer exceeds the estimated value of the RRPT disclosed in the circular to shareholders by 10% or more and must include the information as may be prescribed by Bursa Securities in its announcement.

Where a listed issuer has procured a shareholder mandate pursuant to the above, the provisions of paragraph 10.08 of the Main Market Listing Requirements shall not apply with regard to transactions as detailed in Section 2.3 of this Circular.

The Company proposes to seek your mandate for the HLFG Group to enter into RRPT on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable, and are not detrimental to the minority shareholders of HLFG.

The Proposed Shareholders' Mandate, if approved at the Said AGM, will take immediate effect upon conclusion of the Said AGM and will continue to be in force until the conclusion of the next AGM of the Company or until the expiration of the period within which the next AGM is required by law to be held (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act, unless revoked or varied by the Company in a general meeting, whichever is the earlier.

As HLFG's subsidiaries, HLA and HLMT are companies falling under paragraph 9.20(2)(b) of the Main Market Listing Requirements i.e. companies whose activities are regulated by any written law relating to banking, finance companies or insurance and are subject to supervision by Bank Negara Malaysia, Practice Note No. 12 issued by Bursa Securities allows HLFG to procure a shareholders' mandate for the acquisition or disposal of Securities which is a recurrent transaction, involving the interests of related parties by HLA and HLMT.

## **2.2 Classes of related parties**

Shareholders' approval is sought for the Proposed Shareholders' Mandate involving RRPT which are carried out by the HLFG Group with any of the following classes of related parties:

- HLCM (a major shareholder of HLFG) and persons connected with HLCM ("Hong Leong Group") including those as listed in Appendix II of this Circular; and
- Tower Real Estate Investment Trust ("Tower REIT"). The trustee and manager of Tower REIT are AmTrustee Berhad and GLM REIT Management Sdn Bhd ("GLM REIT Management") respectively. GLM REIT Management is a wholly-owned subsidiary of GuocoLand (Malaysia) Berhad ("GLM"). YBhg Tan Sri Quek Leng Chan is a Director and major shareholder of HLFG and GLM. As at 6 September 2011, certain subsidiaries of HLCM, namely, HLP Equities Sdn Bhd, HLA, HLB, Hong Leong Investment Bank Berhad and Asia Fountain Investment Co Ltd, which are persons connected with YBhg Tan Sri Quek Leng Chan have a total of 54.55% in the units of Tower REIT.

The details of shareholdings of HLCM and YBhg Tan Sri Quek Leng Chan in HLFG are set out in Section 5 of this Circular.

## **2.3 Nature of recurrent related party transactions contemplated**

HLFG is principally an investment holding company and provides services to its subsidiaries to enhance group value. The principal activities of HLFG's unlisted subsidiaries are life and general insurance business including statutory insurance and takaful businesses.

The Hong Leong Group is involved in a diverse range of industries including, inter-alia, manufacturing, procuring and assembling of motorcycles, scooters, motorcycle engines and related parts and products, distribution of motorcycles and motorcycle components, provision of maintenance and repair services for motorcycles, manufacturing and sale of ceramic tiles, provision of research and development services for motorcycles, ceramic tiles and concrete products, distribution of building materials, manufacturing and sale of newsprint and related paper products, manufacturing and sale of concrete and related products, manufacturing and sale of fibre cement products and concrete roofing tiles, manufacturing and sale of cement and other related products, manufacturing, assembling, testing and sale of integrated circuits, semiconductor devices, electronic components and leadframes, design, manufacture and supply of furniture and interior design fit-out works, manufacturing, sale and trading in billets, steel bars, wire rods and other steel products, commercial banking business and provision of related services which include Islamic Banking business, leasing, real property investment and investment in offshore securities, securities and stock broking, investment banking, futures broking, provision of nominees and custodian services, unit trust management, fund management and sale of unit trusts, marketing, property investment and development, project and property management and hotel operations and provision of management, training and security guard services. In view of the diversity of the Hong Leong Group's business, it is envisaged that in the normal course of business of the HLFG Group, transactions in respect of goods and/or services between companies in the HLFG Group and the Hong Leong Group will occur with some degree of frequency from time to time and may arise at any time.

The Group Management And/Or Support Services are part of the shared services of companies within the Hong Leong Group. These shared services are provided in-house in order to align with the Hong Leong Group's corporate objective and management disciplines and to reduce operating cost and improve efficiency such as through economies of scale, better utilisation and allocation of resources, standardisation of processes and operating procedures and information technology. Accordingly, the Board considers it beneficial to enter into transactions in respect of the Group Management And/Or Support Services. The Group Management And/Or Support Services are carried out on commercial terms and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable, and which will not be, in the Company's opinion, detrimental to the minority shareholders.

The Corporate Office Support Services represent the services provided by the HLFG Group in the planning, management and support of companies within the HLB Group and the HLCB Group. These shared services are provided in order to reduce operating cost and improve efficiency.

One of the recommendations under the Financial Sector Master Plan was that financial institutions create one-stop financial centers offering customers a broad range of financial products and services. In line with this, HLFG and its subsidiaries (including HLB and HLCB and their respective subsidiaries) have embarked on cross selling of selected financial products and services as part of the cross-selling initiatives of the HLFG Group and the following cross-selling services are carried out:

- (i) selected financial products and services of the HLB Group and HLCB Group such as credit cards, home/car loans and unit trusts are sold to customers of the HLFG Group; and
- (ii) selected financial products and services of the HLFG Group such as insurance and IT related services are sold to customers of the HLB Group and the HLCB Group.

Every successful sale completed by the product owner under the cross selling programme entitles the company which had rendered the cross selling service by referring or introducing its customers to the product owner, to receive a payment from the product owner. The cross selling services are mutually beneficial to HLFG and its subsidiaries (including HLB and HLCB and their respective subsidiaries) in that it enlarges the customer base and delivery channels for their respective products and services.

The acquisition and disposal of Securities in which related parties may have major interest by HLA and HLMT, an insurance company and a takaful company respectively, are in the ordinary course of business of HLA and HLMT.



Details of RRPT carried out/contemplated shall include, but not limited to, those described below:

(A) RRPT with the Hong Leong Group are as follows:

Transaction	Vendor/ Provider	Purchaser/ Recipient	Interested related parties	Estimated aggregate value as disclosed in the Circular to Shareholders dated 4 October 2010 ("Estimated Value") (RM'million)	Actual value transacted (from date of AGM on 26 October 2010 up to the LPD) ("Actual Value") (RM'million)	*Estimated aggregate value during the validity period of the Proposed Shareholders' Mandate ("Current Estimated Value") (RM'million)
a) Leasing/rental of properties to the Hong Leong Group such as Wisma Hong Leong, Jalan Perak.**	HLFG Group	Hong Leong Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	35.00	18.15	30.00
b) Provision of Corporate Office Support Services	HLFG Group	HLB Group, HLCB Group and Hong Leong Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	15.00	7.59	12.00
c) Receipt of support services such as internal audit and information technology services	HLB Group	HLFG Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	10.00	3.76	8.00
d) Purchase of goods such as building materials, furniture, motorcycles and other products	Hong Leong Group	HLFG Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	10.00	0.01	8.00
e) Receipt of Services	Hong Leong Group	HLFG Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	20.00	1.20	10.00
f) Leasing/rental of properties from the Hong Leong Group such as Jalan Kampong Nyabor, Sibul.**	Hong Leong Group	HLFG Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	5.00	0.02	4.00

(A) RRPT with the Hong Leong Group are as follows: (cont'd)

Transaction	Vendor/ Provider	Purchaser/ Recipient	Interested related parties	Estimated aggregate value as disclosed in the Circular to Shareholders dated 4 October 2010 ("Estimated Value") (RM'million)	Actual value transacted (from date of AGM on 26 October 2010 up to the LPD) ("Actual Value") (RM'million)	*Estimated aggregate value during the validity period of the Proposed Shareholders' Mandate ("Current Estimated Value") (RM'million)
g) Receipt of Group Management And/Or Support Services	Hong Leong Group, HLB Group and HLCB Group	HLFG Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	30.00	11.70	40.00
h) Payment for usage of the Hong Leong Group's logos and trade marks	Hong Leong Group	HLFG Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	0.50	0.02	0.50

(B) RRPT with Tower REIT are as follows:

Transaction	Vendor/ Provider	Purchaser/ Recipient	Interested related parties	Estimated aggregate value as disclosed in the Circular to Shareholders dated 4 October 2010 ("Estimated Value") (RM'million)	Actual value transacted (from date of AGM on 26 October 2010 up to the LPD) ("Actual Value") (RM'million)	*Estimated aggregate value during the validity period of the Proposed Shareholders' Mandate ("Current Estimated Value") (RM'million)
Leasing/rental of properties from Tower REIT such as Menara HLA, Jalan Kia Peng**	Tower REIT	HLFG Group	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM	6.00	0.54	4.00

(C) RRPT by the acquisition and disposal of Securities in which related parties have major interest are as follows:

Transaction	Vendor/ Provider	Purchaser/ Recipient	Interested related parties	Estimated aggregate value as disclosed in the Circular to Shareholders dated 4 October 2010 (“Estimated Value”) (RM’ million)	Actual value transacted (from date of AGM on 26 October 2010 up to the LPD) (“Actual Value”) (RM’ million)	*Estimated aggregate value during the validity period of the Proposed Shareholders’ Mandate (“Current Estimated Value”) (RM’ million)
a) Acquisition of Securities in which related parties have major interest through the open market, direct business transactions, subscriptions and/or placements	Hong Leong Group and/or third parties	HLA and/or HLMT	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCCM	500.00	14.92	500.00
b) Disposal of Securities in which related parties have major interest through the open market, direct business transactions and/or placements	HLA and/or HLMT	Hong Leong Group and/or third parties	Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCCM	300.00	Nil	300.00

Notes:

\* The Current Estimated Value of the transactions is based on the Actual Value transacted and/or management’s estimate of the value to be transacted during the validity period of the Proposed Shareholders’ Mandate. The Current Estimated Value of these transactions may be subject to changes.

\*\* The rental of office space is for a tenure of 3 years and receipt/payment of rental will be on a monthly basis.

None of the Actual Value of the RRPT as disclosed above has exceeded the Estimated Value by 10% or more.

## **2.4 Methods or procedures on which transaction prices are determined/review procedures for RRPT**

To ensure that the RRPT are conducted on commercial terms consistent with the HLF Group's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders, the following principles will apply:

- (i) The purchase of goods, provision or receipt of Services and provision of property management services shall be determined based on prevailing rates/prices of the goods or services (including where applicable, preferential rates/prices/discounts accorded to a class or classes of customers or for bulk purchases) according to commercial terms, business practices and policies or otherwise in accordance with other applicable industry norms/considerations.
- (ii) The leasing/rental of properties shall be at the prevailing market rates for the same or substantially similar properties and shall be on commercial terms.
- (iii) The provision of Corporate Office Support Services is based on commercial terms.
- (iv) The receipt of Group Management And/Or Support Services is based on commercial terms.
- (v) The payment and receipt of payment for cross selling services is based on commercial terms.
- (vi) The payment for usage of the Hong Leong Group's logos and trade marks is based on commercial terms.
- (vii) The acquisition or disposal of Securities shall be based on prevailing market prices.

At least two (2) other contemporaneous transactions with unrelated third parties for similar products/services and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered to/by the related parties are fair and reasonable and comparable to those offered to/by other unrelated third parties for the same or substantially similar type of products/services and/or quantities.

In the event that quotation or comparative pricing from unrelated third parties cannot be obtained, the Board Audit & Risk Management Committee ("BARMC"), in its review of the RRPT may, as it deems fit and whenever available, request for additional information pertaining to the transactions from independent sources or advisers.

To monitor, track and identify the RRPT, the following review procedures have been implemented:

- (i) A register is maintained to record all RRPT which are entered into pursuant to the Proposed Shareholders' Mandate.
- (ii) The BARMC will undertake a quarterly review of RRPT to ensure that such transactions are undertaken on commercial terms and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable, and are not, in the Company's opinion, detrimental to the minority shareholders and in the best interest of the HLF Group.

There are no specific thresholds for approval of RRPT within the HLF Group. However, all RRPT are subject to the approval of the Heads of the relevant operating companies or such persons to whom they may delegate such power subject always to any HLF Group's policies that may be issued from time to time.

The BARMC will review the existing procedures and processes, on an annual basis and as and when required, to ensure that the RRPT are at all times carried out on commercial terms consistent with the HLFG Group's usual business practices and policies.

The BARMC of the Company has reviewed the above procedures and is satisfied that the said procedures are adequate to monitor, track and identify RRPT in a timely and orderly manner and are sufficient to ensure that the RRPT will be carried out on commercial terms consistent with the HLFG Group's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable, and are not detrimental to the minority shareholders. Any member of the BARMC who is interested in any transaction shall abstain from reviewing and deliberating on such transaction.

## **2.5 Validity period of the Proposed Shareholders' Mandate**

The Proposed Shareholders' Mandate if approved at the Said AGM, shall take immediate effect upon the conclusion of the Said AGM of the Company and shall continue to be in force until:

- (i) the conclusion of the next AGM of the Company, at which time it will lapse, unless authority is renewed by a resolution passed at the next AGM; or
- (ii) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (iii) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier.

The Proposed Shareholders' Mandate is subject to satisfactory review by the BARMC of the Company of its continued application to RRPT.

## **2.6 Disclosure**

Disclosure will be made in the Company's Annual Report of the breakdown of the aggregate value of the RRPT made during the financial year, types of transactions made, names of the related parties involved and their relationship with the HLFG Group pursuant to the Proposed Shareholders' Mandate in accordance with paragraph 10.09(2) and Practice Note No. 12 of the Main Market Listing Requirements.

## **3. RATIONALE FOR AND BENEFITS OF PROPOSED SHAREHOLDERS' MANDATE**

The rationale for and the benefits of the Proposed Shareholders' Mandate to the HLFG Group are as follows:

- (i) The Proposed Shareholders' Mandate will facilitate transactions with related parties which are in the ordinary course of business of the HLFG Group and undertaken on commercial terms and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable, and are not detrimental to the minority shareholders of the Company.

- (ii) The Proposed Shareholders' Mandate will enhance the HLFG Group's ability to pursue business opportunities which are time-sensitive in nature and will eliminate the need for the Company to convene separate general meetings to seek shareholders' approval for each transaction.
- (iii) For certain transactions, where it is vital that confidentiality be maintained, it would not be viable to obtain shareholders' prior approval, as releasing details of the transaction prematurely may adversely affect and prejudice the HLFG Group's interests and place the HLFG Group at a disadvantage as compared with its competitors who may not require shareholders' approval to be obtained.
- (iv) The Proposed Shareholders' Mandate will substantially reduce the expenses associated with convening general meetings on an ad hoc basis, improve administrative efficiency considerably and allow resources to be channeled towards attaining other corporate objectives.
- (v) In respect of the Corporate Office Support Services and Group Management And/Or Support Services, the Proposed Shareholders' Mandate will enable the HLFG Group to reduce operating cost and to improve efficiency, thereby improving business and administrative efficacy for the HLFG Group.

#### 4. **CONDITION OF THE PROPOSED SHAREHOLDERS' MANDATE**

The Proposed Shareholders' Mandate is subject to your approval at the Said AGM.

#### 5. **DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS**

HLCM is a major shareholder of HLFG. YBhg Tan Sri Quek Leng Chan is a Director and major shareholder of HLFG and HLCM. Mr Kwek Leng Beng is a major shareholder of HLFG, and a Director and major shareholder of HLCM. Mr Quek Leng Chye and Mr Kwek Leng Kee are major shareholders of HLFG and HLCM. YBhg Tan Sri Quek Leng Chan and Mr Quek Leng Chye are brothers. Mr Quek Kon Sean, a Director and shareholder of HLFG, is a son of YBhg Tan Sri Quek Leng Chan.

The shareholdings of HLCM, YBhg Tan Sri Quek Leng Chan, Mr Kwek Leng Beng, Mr Quek Leng Chye, Mr Kwek Leng Kee and Mr Quek Kon Sean in HLFG as at 6 September 2011 are as follows:

	<b>No. of shares held in HLFG</b>			
	<b>Direct</b>	<b>%</b>	<b>Indirect</b>	<b>%</b>
HLCM	546,773,354	51.94	267,083,546	25.37*
Tan Sri Quek Leng Chan	4,989,600	0.47	824,437,300	78.31**
Kwek Leng Beng	1,241,321	0.12	818,380,300	77.74***
Quek Leng Chye	1,925,100	0.18	818,380,300	77.74***
Kwek Leng Kee	-	-	818,380,300	77.74***
Quek Kon Sean	300,000	0.03	-	-

*Notes:*

\* *Held through subsidiary companies*

\*\* *Held through HLCM and companies in which Tan Sri Quek Leng Chan has interest*

\*\*\* *Held through HLCM and a company in which the substantial shareholder has interest*

YBhg Tan Sri Quek Leng Chan and Mr Quek Kon Sean had abstained and will continue to abstain from deliberation and voting on the proposed ordinary resolutions in which they have interest in pertaining to the Proposed Shareholders' Mandate at the Board level.

HLCM, YBhg Tan Sri Quek Leng Chan, Mr Kwek Leng Beng, Mr Quek Leng Chye, Mr Kwek Leng Kee and Mr Quek Kon Sean shall abstain from voting and will ensure that persons connected with them will also abstain from voting, in respect of their direct and/or indirect interests, on the proposed ordinary resolutions pertaining to the Proposed Shareholders' Mandate at the Said AGM.

Save as disclosed above, none of the other Directors and major shareholders of HLFM or persons connected with the Directors or major shareholders of HLFM, has any interest, direct or indirect, in the relevant resolutions pertaining to the Proposed Shareholders' Mandate.

## **6. DIRECTORS' RECOMMENDATION**

Your Board (except for YBhg Tan Sri Quek Leng Chan and Mr Quek Kon Sean who had abstained from expressing any opinion in relation to the proposed ordinary resolutions in view of their interests), having taken into consideration all aspects of the Proposed Shareholders' Mandate, is of the opinion that the Proposed Shareholders' Mandate is in the best interest of the HLFM Group and accordingly, your Board (except for YBhg Tan Sri Quek Leng Chan and Mr Quek Kon Sean) recommends that you vote in favour of the proposed ordinary resolutions relating to the Proposed Shareholders' Mandate to be tabled at the Said AGM.

## **7. RESOLUTIONS ON THE PROPOSED SHAREHOLDERS' MANDATE AND AGM**

The proposed ordinary resolutions on the Proposed Shareholders' Mandate will be tabled at the forthcoming AGM of HLFM to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Friday, 28 October 2011 at 10.30 a.m. or at any adjournment thereof. The said resolutions are set out in HLFM's Annual Report for the financial year ended 30 June 2011.

The Notice of the Said AGM and the Form of Proxy are enclosed in HLFM's Annual Report for the financial year ended 30 June 2011, which is despatched together with this Circular.

If you are unable to attend the Said AGM in person, please complete the Form of Proxy and forward it to the Registered Office of HLFM at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur, so as to arrive not less than forty-eight (48) hours before the time for convening the Said AGM or at any adjournment thereof.

The completion and return of the Form of Proxy will not preclude you from attending and voting at the Said AGM in person should you wish to do so. The Form of Proxy should be completed strictly in accordance with the instructions contained therein.

## **8. FURTHER INFORMATION**

Shareholders are requested to refer to the attached Appendix IV of this Circular for further information.

Yours faithfully  
For and on behalf of the Board

TAN SRI DATO' SERI KHALID AHMAD  
BIN SULAIMAN  
Director

## DEFINITIONS PURSUANT TO THE MAIN MARKET LISTING REQUIREMENTS

“related party(ies)”	means a director, major shareholder or person connected with such director or major shareholder.
“director”	<p>has the meaning given in Section 2(1) of the Capital Markets and Services Act 2007 and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon:</p> <ul style="list-style-type: none"> <li>(a) a director of the listed issuer, its subsidiary or holding company; or</li> <li>(b) a chief executive of the listed issuer, its subsidiary or holding company; and</li> <li>(c) in relation to a special purpose acquisition company (“SPAC”), a member of the SPAC’s management team.</li> </ul>
“major shareholder”	<p>includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed issuer (means a person who has an interest or interests in one or more voting shares in a corporation and the nominal amount of that share, or the aggregate of the nominal amount of those shares, is:</p> <ul style="list-style-type: none"> <li>(a) 10% or more of the aggregate of the nominal amounts of all the voting shares in the corporation; or</li> <li>(b) 5% or more of the aggregate of the nominal amounts of all the voting shares in the corporation where such person is the largest shareholder of the corporation)</li> </ul> <p>or any other corporation which is its subsidiary or holding company.</p> <p>(For the purpose of this definition, “interest in shares” has the meaning given in Section 6A of the Act).</p>
“person connected”	<p>in relation to a director, major shareholder or in relation to a SPAC, a member of the management team, means such person who falls under any one of the following categories:</p> <ul style="list-style-type: none"> <li>(a) a family member of the director, major shareholder or management team member;</li> <li>(b) a trustee of a trust (other than a trustee for an employee share scheme or pension scheme) under which the director, major shareholder, management team member, or a family member of the director, major shareholder or management team member, is the sole beneficiary;</li> </ul>



- (c) a partner of the director, major shareholder, management team member, or a partner of a person connected with that director, major shareholder or management team member;
- (d) a person who is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the director, major shareholder or management team member;
- (e) a person in accordance with whose directions, instructions or wishes the director, major shareholder, or management team member is accustomed or is under an obligation, whether formal or informal, to act;
- (f) a body corporate or its directors which/who is/are accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the director, major shareholder or management team member;
- (g) a body corporate or its directors whose directions, instructions or wishes the director, major shareholder or management team member is accustomed or under an obligation, whether formal or informal, to act;
- (h) a body corporate in which the director, major shareholder or management team member, or persons connected with him are entitled to exercise, or control the exercise of, not less than 15% of the votes attached to voting shares in the body corporate; or
- (i) a body corporate which is a related corporation.

## PERSONS CONNECTED WITH HLCM AS AT 6 SEPTEMBER 2011

Company	Interest of HLCM as at 06.09.2011 (%)	Nature of business
1. HL Management Co Sdn Bhd and its subsidiaries and/or its related corporations	100.00	Provision of management and training services, investment holding, provision of fund management, nominees and custodian services
2. Hong Leong Share Registration Services Sdn Bhd	100.00	Provision of share registration services
3. Guardian Security Consultants Sdn Bhd	20.00	Provision of security guard services
4. GuoLine Group Management Co. Limited and its subsidiary	100.00	Investment holding and provision of management services
5. GuoLine Intellectual Assets Limited	100.00	Intellectual properties holding company
6. Hong Leong Manufacturing Group Sdn Bhd (formerly known as Spectrum Arrangement Sdn Bhd) and its unlisted subsidiaries and associated corporations	100.00	Investment holding, provision of management services and manufacturing and sale of cement and other related products
7. Hong Leong Bank Berhad and its subsidiaries and associated corporations	64.58	Commercial banking business and provision of related services which include Islamic Banking business, leasing, real property investment, nominee services and investment in offshore securities
8. Hong Leong Capital Berhad (formerly known as HLG Capital Berhad) and its subsidiaries and associated corporations	79.09	Investment holding, securities and stock broking, investment banking, futures broking, provision of nominees and custodian services, unit trust management, fund management and sale of unit trusts
9. GuocoLand (Malaysia) Berhad and its subsidiaries and associated corporations	64.99	Investment holding, property development, property investment, hotel operations, trading in securities, provision of management and property-related services and operation of oil palm estates

<b>Company</b>	<b>Interest of HLCM as at 06.09.2011 (%)</b>	<b>Nature of business</b>
10. Hong Leong Industries Berhad and its subsidiaries and associated corporations	75.39	Investment holding, manufacturing, procuring and assembling of motorcycles, scooters, motorcycle engines and related parts and products, distribution of motorcycles and motorcycle components, provision of maintenance and repair services for motorcycles, manufacturing and sale of ceramic tiles, provision of research and development services for motorcycles, ceramic tiles and concrete products, distribution of building materials, manufacturing and sale of newsprint and related paper products, manufacturing and sale of concrete and related products, manufacturing and sale of fibre cement products and concrete roofing tiles
11. Malaysian Pacific Industries Berhad and its subsidiaries and associated corporations	54.41	Investment holding, manufacturing, assembling, testing and sale of integrated circuits, semiconductor devices, electronic components and leadframes
12. Southern Steel Berhad and its subsidiaries and associated corporations	70.14	Investment holding, manufacturing, sale and trading in billets, steel bars, wire rods and other steel products
13. Narra Industries Berhad and its subsidiaries and associated corporations	61.59	Investment holding, design, manufacture and supply of furniture and interior design fit-out works
14. Guoco Group Limited and its non-Malaysian subsidiaries and associated corporations	71.52	Include investment holding, investment management, principal investment, property investment as well as financial services including stock and commodity broking and investment advisory, property development and investment, hospitality and leisure business
15. Lam Soon (Hong Kong) Limited and its subsidiaries and associated corporations	57.53	Investment holding, importing, processing and trading of flour products, manufacturing, processing and trading of edible oils, processing and trading of detergent products

## ACTIVITIES OF THE HLFG GROUP AS AT 6 SEPTEMBER 2011

<b>Name of company</b>	<b>Effective % held</b>	<b>Principal Activities</b>
<b>Subsidiary companies</b>		
HLA Holdings Sdn Bhd and its subsidiaries:	100.00	Investment holding
Hong Leong Insurance (Asia) Limited	100.00	General insurance business
Hong Leong MSIG Takaful Berhad (formerly known as Hong Leong Tokio Marine Takaful Berhad)	65.00	Takaful business
Hong Leong Assurance Berhad	70.00	Life insurance business
HLAH Assets Sdn Bhd	100.00	Investment holding
Hong Leong Equities Sdn Bhd	100.00	Investment in stocks, shares and other securities
HLFG Assets Sdn Bhd	100.00	Investment holding
Wing Trade Investments Limited	100.00	Investment holding

**FURTHER INFORMATION****1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular had been seen and approved by the Directors of HLFG who collectively and individually accept full responsibility for the accuracy of the information given and confirm that, having made all reasonable enquiries and to the best of their knowledge and belief, there are no other material facts, the omission of which would make any statement herein misleading.

**2. MATERIAL LITIGATION, CLAIMS AND ARBITRATION**

As at the LPD, HLFG Group is not engaged in any material litigation, claims and arbitration, either as plaintiff or defendant, and the Directors do not have any knowledge of any proceeding, pending or threatened, against the HLFG Group or of any other facts likely to give rise to any proceeding which may materially or adversely affect the financial position or business or title to or possession of any of the properties of the HLFG Group.

**3. MATERIAL CONTRACT**

Save as disclosed below, there are no other contracts which are material (not being contracts entered into in the ordinary course of business) which have been entered into by the HLFG Group within the two (2) years immediately preceding the date of this Circular:

- Conditional business transfer agreement dated 18 June 2010 between HLA and MSIG Insurance (Malaysia) Berhad (“MSIM”) in relation to the proposed merger of both general insurance businesses of MSIM and HLA via a transfer of the general insurance business of HLA to MSIM for a consideration of RM618,646,291 to be satisfied via the issuance of such number of new shares as shall represent 30% of the enlarged ordinary issued and paid-up capital of MSIM.
- Conditional sale and purchase agreement dated 18 June 2010 between HLAH and Mitsui Sumitomo Insurance Company, Limited (“MSIJ”) in relation to the proposed disposal by HLAH of 60,000,000 ordinary shares of RM1.00 each (representing a 30% equity interest) in HLA to MSIJ for a cash consideration of RM940 million.
- Irrevocable written undertaking from HLFG to HLB dated 15 June 2011 (“HLFG’s Undertaking”) to subscribe for its entitlement to the renounceable rights issue of up to 299.8 million new HLB Shares (“Rights Shares”) to be issued by HLB on the basis of 1 Rights Share for every 5 existing HLB Shares held by HLB’s entitled shareholders as at 5.00 p.m. on 21 September 2011, at an issue price of RM8.65 per Rights Share. In view of HLFG’s Undertaking, HLFG and HLB had mutually agreed, vide letters dated 4 July 2011 and 9 September 2011, that the amount payable by HLFG for the full subscription of its entitlement to the Rights Shares and for the subscription of excess Rights Shares (if applied and allotted) shall be set off against the amount owing by HLB to HLFG under the tier 2 cumulative subordinated loan facility granted by HLFG to HLB.

#### **4. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Registered Office of HLFG at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur during normal office hours from Mondays to Fridays (except public holidays) from the date of this Circular to the date of the Said AGM:

- (i) Memorandum and Articles of Association of HLFG;
- (ii) Annual Reports of HLFG for the two (2) financial years ended 30 June 2010 and 2011; and
- (iii) The material contracts referred to in paragraph 3 above.