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Hong Leong Financial Group Berhad (8024-W)

A Member of the Hong Leong Group

CIRCULAR TO SHAREHOLDERS

in relation to

PART A

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE ON RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

PART B

PROPOSED ESTABLISHMENT OF A NEW EXECUTIVE SHARE OPTION SCHEME OF UP TO 10% OF THE ISSUED AND PAID-UP ORDINARY SHARE CAPITAL (EXCLUDING TREASURY SHARES) OF HONG LEONG FINANCIAL GROUP BERHAD

Adviser for Part B



Hong Leong Investment Bank Berhad (10209-W)

(Formerly known as MIMB Investment Bank Berhad)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The resolutions in respect of the above proposals 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 Tuesday, 30 October 2012 at 11.30 a.m. or at any adjournment thereof. The Notice of AGM and the Form of Proxy are set out in the 2012 Annual Report of HLFGB, which is despatched together with this Circular.

This Circular is dated 8 October 2012

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PART A

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

DEFINITIONS

Except where the context otherwise requires, the following definitions apply throughout Part A of 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” | : | Include services such as corporate advisory, secretarial and legal, treasury and risk management, internal audit, accounting and tax, share registration, nominees, custodian and ESOS administration, fund management, human resources management, training, investment, productivity and quality improvement, planning and compliance, support on corporate social responsibility initiatives 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 64.42% subsidiary of HLFG |
| “HLB Group” | : | HLB and its subsidiaries |
| “HLCB” | : | Hong Leong Capital Berhad, a 79.09% subsidiary of HLFG |
| “HLCB Group” | : | HLCB 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) |
| “HLMT” | : | Hong Leong MSIG Takaful Berhad, a 65% subsidiary of HLAH |

DEFINITIONS (cont'd)

- “LPD” : 10 September 2012, 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 Renewal of 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 HLFG Group as set out in Section 2.3 of Part A of this Circular
- “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” : Include sale, maintenance and 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” : Issued and paid-up ordinary shares of RM1.00 each in HLFG



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

8 October 2012

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)
YBhg Datuk 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 RENEWAL OF SHAREHOLDERS' MANDATE ON RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

1. INTRODUCTION

At the Company's AGM held on 28 October 2011, 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 Tuesday, 30 October 2012 at 11.30 a.m. ("Said AGM"), unless it is renewed at the Said AGM.

In connection thereto, on 14 September 2012, the Company announced that your Directors propose to seek your approval for the Proposed Renewal of Shareholders' Mandate at the Said AGM.

The purpose of Part A of this Circular is to provide you with details of the Proposed Renewal of Shareholders' Mandate and to seek your approval for the proposed ordinary resolutions pertaining to the Proposed Renewal of 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 the 2012 Annual Report of HLFG, which is despatched together with this Circular.

2. DETAILS OF THE PROPOSED RENEWAL OF 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 Part A of this Circular.

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.

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 Renewal of 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.

2.2 Classes of related parties

Shareholders' approval is sought for the Proposed Renewal of 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 10 September 2012, certain subsidiaries of HLCM, namely, HLP Equities Sdn Bhd, HLA, HLB, Hong Leong Investment Bank Berhad and Asia Fountain Investment Company Limited, 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 Part A of this Circular.

2.3 Nature of RRPT 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 include life and general insurance businesses, takaful businesses and investment holding. Details of the unlisted subsidiaries of HLFG undertaking these activities are set out in Appendix III of this Circular.

The Hong Leong Group is also 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, 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, real property investment; investment banking, stockbroking business, futures broking and related financial services; nominees and custodian services; unit trust management, fund management and sale of unit trusts; property investment and development; project and property management; hotel operations; provision of management, training and security guard services; and manufacturing and sale of cement and other related products. 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 of HLFG.

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 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 6 October 2011 (“Estimated Value”) (RM’million) | Actual value transacted (from date of AGM on 28 October 2011 up to the LPD) (“Actual Value”) (RM’million) | *Estimated aggregate value during the validity period of the Proposed Renewal of Shareholders’ Mandate (“Current Estimated Value”) (RM’million) |
|--------------------------------------------------------------------------------------------------------------------------|---------------------|--------------------------------------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Leasing/rental of properties such as Wisma Hong Leong, Jalan Perak to the Hong Leong Group** | HLFG Group | Hong Leong Group | Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM | 30.00 | 18.05 | 40.00 |
| (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 | 12.00 | 8.29 | 20.00 |
| (c) Receipt of support services which include internal audit, information technology services and other support services | HLB Group | HLFG Group | Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM | 8.00 | 5.39 | 12.00 |
| (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 | 8.00 | Nil | 5.00 |
| (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 | 10.00 | 1.89 | 10.00 |
| (f) Leasing/rental of properties such as Jalan Kampong Nyabor, Sibul from the Hong Leong Group** | Hong Leong Group | HLFG Group | Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM | 4.00 | 0.12 | 2.00 |

(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 6 October 2011 ("Estimated Value") (RM'million) | Actual value transacted (from date of AGM on 28 October 2011 up to the LPD) ("Actual Value") (RM'million) | *Estimated aggregate value during the validity period of the Proposed Renewal of Shareholders' Mandate ("Current Estimated Value") (RM'million) |
|-----------------------------------------------------------------------|---------------------|-------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (g) Receipt of Group Management And/Or Support 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 | 40.00 | 38.56 | 60.00 |
| (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 | 0.03 | 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 6 October 2011 ("Estimated Value") (RM'million) | Actual value transacted (from date of AGM on 28 October 2011 up to the LPD) ("Actual Value") (RM'million) | *Estimated aggregate value during the validity period of the Proposed Renewal of Shareholders' Mandate ("Current Estimated Value") (RM'million) |
|-----------------------------------------------------------------------------------|---------------------|-------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Leasing/rental of properties such as Menara HLA, Jalan Kia Peng from Tower REIT** | Tower REIT | HLFG Group | Tan Sri Quek Leng Chan, Kwek Leng Beng, Quek Leng Chye, Kwek Leng Kee, Quek Kon Sean and HLCM | 4.00 | 0.46 | 2.00 |

(C) RRPT for 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 6 October 2011 ("Estimated Value") (RM'million) | Actual value transacted (from date of AGM on 28 October 2011 up to the LPD) ("Actual Value") (RM'million) | *Estimated aggregate value during the validity period of the Proposed Renewal of 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 | 446.52 | 700.00 |
| (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 | 37.00 | 400.00 |

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 Renewal of 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 is 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 Amount due and owing by related parties

As at the financial year ended 30 June 2012, there is no amount due and owing to the Company by its related parties arising from the RRPT as set out in Section 2.3(A) to 2.3(C) of Part A of this Circular, which exceeded the credit term.

2.5 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 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 Renewal of 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 are in the best interest of the HLF Group.

There are no specific thresholds for approval of RRPT within the HLFG 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 HLFG 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.

2.6 Validity period of the Proposed Renewal of Shareholders' Mandate

The Proposed Renewal of Shareholders' Mandate if approved at the Said AGM, shall take immediate effect upon the conclusion of the Said AGM 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 Renewal of Shareholders' Mandate is subject to satisfactory review by the BARMC of the Company of its continued application to RRPT.

2.7 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 Renewal of 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 THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE

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

- (i) The Proposed Renewal of 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 Renewal of 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 Renewal of 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 Renewal of 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 RENEWAL OF SHAREHOLDERS' MANDATE

The Proposed Renewal of 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 10 September 2012 are as follows:

| | No. of Shares | | | |
|------------------------|---------------|-------|-------------|---------|
| | Direct | % | Indirect | % |
| 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 | 935,000 | 0.09 | - | - |

Notes:

* Held through subsidiary(ies)

** Held through HLCM and company(ies) 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 pertaining to the Proposed Renewal of Shareholders' Mandate in which they are interested 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 Renewal of 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 Renewal of 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 Renewal of Shareholders' Mandate, is of the opinion that the Proposed Renewal of 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 Renewal of Shareholders' Mandate to be tabled at the Said AGM.

7. RESOLUTIONS ON THE PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND AGM

The proposed ordinary resolutions on the Proposed Renewal of Shareholders' Mandate will be tabled at the Said AGM to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 30 October 2012 at 11.30 a.m. or at any adjournment thereof. The said resolutions are set out in the 2012 Annual Report of HLFM.

The notice of the Said AGM and the Form of Proxy are enclosed in the 2012 Annual Report of HLFM, 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 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 VI of this Circular for further information.

Yours faithfully
For and on behalf of the Board

TAN SRI DATO' SERI KHALID AHMAD
BIN SULAIMAN
Director

PART B

**PROPOSED ESTABLISHMENT OF A NEW EXECUTIVE SHARE OPTION SCHEME
OF UP TO 10% OF THE ISSUED AND PAID-UP ORDINARY SHARE CAPITAL
(EXCLUDING TREASURY SHARES) OF HONG LEONG FINANCIAL GROUP BERHAD**

DEFINITIONS

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

| | |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Act” | : Companies Act, 1965 as amended from time to time and includes any re-enactment thereof |
| “AGM” | : Annual General Meeting |
| “AmTrustee” or “Trustee” | : AmTrustee Berhad |
| “Board” | : Board of Directors or board of directors of the relevant subsidiary of the Company (as the case may be, in respect of Eligible Executives in the said subsidiary only) or a duly authorised committee thereof or an individual authorised by the board of directors |
| “Board of Directors” or “Director” | : Board of directors of HLFGB |
| “Bursa Securities” | : Bursa Malaysia Securities Berhad |
| “Bye-Laws” | : Rules, terms and conditions of the Proposed New ESOS in accordance with the draft Bye-Laws in Appendix IV, as may be amended, varied or supplemented from time to time |
| “Date of Offer” | : The date on which an Offer is made by a Member of the Group in writing to an Eligible Executive |
| “Earned Option” | : An Option or any part thereof that is exercisable by an Option Holder following the fulfilment of the prescribed financial and performance targets or criteria (if any) within such period as may be determined by the Board and as confirmed by the issue of a letter from the relevant Member of the Group |
| “Eligible Executive” | : Any person who is eligible to participate in the Scheme in accordance with the Bye-Laws |
| “ESOS” or “Scheme” | : Executive share option scheme |
| “Existing ESOS” | : Existing ESOS involving up to 15% of the issued and paid-up ordinary share capital (excluding treasury shares) of our Company, which was established in year 2006 and will expire in year 2016 |
| “HLFG” or “our Company” | : Hong Leong Financial Group Berhad |
| “HLFG Group” or “our Group” | : HLFGB and its subsidiaries, collectively |
| “HLFG Shares” | : Ordinary shares of RM1.00 each in HLFGB |
| “HLIB” | : Hong Leong Investment Bank Berhad (formerly known as MIMB Investment Bank Berhad) |
| “Listing Requirements” | : Main Market Listing Requirements of Bursa Securities, as amended from time to time |

DEFINITIONS (cont'd)

| | |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “LPD” | : 10 September 2012, being the latest practicable date prior to the date of this Circular |
| “Market Day” | : Any day which Bursa Securities is open for trading in securities |
| “Member of the Group” | : HLFG or any of its subsidiaries |
| “NA” | : Net assets |
| “New HLFG Shares” | : New ordinary shares of RM1.00 each in HLFG (unless otherwise adjusted) |
| “Offer” | : An offer made in writing by a Member of the Group to an Eligible Executive to participate in the Scheme in the manner provided in the Bye-Laws |
| “Option” | : An option contract, by whatever name called, between a Member of the Group and the relevant Option Holder, the exercise of which may be conditional or unconditional as determined by the Board, constituted by the issuance of an Option Certificate after the acceptance of an Offer |
| “Option Certificate” | : An option certificate or letter for an Option issued by a Member of the Group in relation to an accepted Offer |
| “Option Exercise Period” | : The period during which an Earned Option may be exercised as determined by the Board and specified in an Option Certificate |
| “Option Holder” | : An Eligible Executive who is the holder of a valid Option Certificate |
| “Option Performance Period” | : The period determined by the Board for the achievement of the financial and performance targets or criteria |
| “Option Price” | : The exercise price for HLFG Shares set out in an Option Certificate as determined by the Board under the Bye-Laws |
| “Proposed New ESOS” | : Proposed establishment of a new ESOS of up to 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of HLFG for Eligible Executives |
| “RM” and “sen” | : Ringgit Malaysia and sen respectively |
| “WAMP” | : Weighted average market price |

All references to “our Company” in Part B of this Circular are to HLFG, references to “our Group” are to our Company and subsidiaries and references to “we”, “us”, “our” and “ourselves” are to our Company, and save where the context requires, shall include our subsidiaries.

All references to “you” in Part B of this Circular are to the shareholders of our Company.

Words importing the singular only shall include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. References to persons shall include corporations.

All references to the time of day in Part B of this Circular are references to Malaysian time.



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

8 October 2012

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)
YBhg Datuk 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 ESTABLISHMENT OF A NEW ESOS OF UP TO 10% OF THE ISSUED AND PAID-UP ORDINARY SHARE CAPITAL (EXCLUDING TREASURY SHARES) OF HLFGB

1. INTRODUCTION

On 30 July 2012, HLIB had, on behalf of our Company, announced that our Company proposes to implement the Proposed New ESOS.

On 18 September 2012, HLIB had, on behalf of our Company, announced that Bursa Securities had, via its letter dated 18 September 2012, resolved to approve the listing of such number of additional New HLFGB Shares, representing up to 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of HLFGB, to be issued pursuant to the exercise of the Options under the Proposed New ESOS.

The purpose of Part B of this Circular is to provide you with details and information on the Proposed New ESOS, to set out our Directors' recommendation and to seek your approval for the proposed ordinary resolutions pertaining to the Proposed New ESOS and the grant of Options to directors of our Company to be tabled at our forthcoming AGM. The Notice of AGM and the Form of Proxy are enclosed in the 2012 Annual Report of HLFGB, which is despatched together with this Circular.

YOU ARE ADVISED TO READ AND CONSIDER THE CONTENTS OF PART B OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CAREFULLY BEFORE VOTING ON THE PROPOSED ORDINARY RESOLUTIONS PERTAINING TO THE PROPOSED NEW ESOS AND THE GRANT OF OPTIONS TO DIRECTORS OF OUR COMPANY TO BE TABLED AT OUR FORTHCOMING AGM.

2. PROPOSED NEW ESOS

2.1 Proposed New ESOS

Our Company proposes to establish a new ESOS for the benefit of Eligible Executives in accordance with the Bye-Laws.

The Proposed New ESOS will enable our Company to have a fresh duration of 10 years to implement the Scheme and to provide an opportunity for Eligible Executives who have contributed to the growth and development of our Group to participate in the equity of our Company. The Proposed New ESOS will be administered by the Board. The Board shall have the absolute discretion to impose such conditions applicable to the grant of Options, as it may deem fit, including prescribing the financial and performance targets or criteria.

In implementing the Proposed New ESOS, it is the intention of our Company to have the flexibility, at the absolute discretion of the Board, to enable the satisfaction of the exercise of the Options through:

- (i) the issue of New HLFM Shares;
- (ii) transfer of existing HLFM Shares; or
- (iii) a combination of issuance of New HLFM Shares and transfer of existing HLFM Shares.

The Board may at its absolute discretion decide whether the allocation available shall be staggered over the duration of the Proposed New ESOS, and whether there is any vesting period for the Options to be granted. The aggregate number of HLFM Shares comprised in exercised Options, unexercised Options and unexpired Offers pending acceptances by Eligible Executives under the Existing ESOS and Proposed New ESOS shall not exceed the Maximum Aggregate (as defined in Section 2.1.1(i) below).

The Board shall have the discretion to determine the aggregate allocation to directors and senior management under the Proposed New ESOS, but in any case, it shall not exceed the Maximum Aggregate (as defined in Section 2.1.1(i) below).

The Proposed New ESOS, if established, shall be the second of such scheme to be implemented concurrently by our Company in addition to the Existing ESOS.

Under the Existing ESOS, trusts had been established and AmTrustee, acting as trustee for the Existing ESOS, had acquired HLFM Shares from the market for the purpose of the Existing ESOS. As at the LPD, AmTrustee holds 13,234,500 HLFM Shares under the trusts. Upon establishment of the Proposed New ESOS, supplemental trust deeds shall be entered into with AmTrustee. Following this, HLFM Shares currently held by AmTrustee for the Existing ESOS shall also be applied for the Proposed New ESOS. The salient features of the draft supplemental trust deeds are set out in Appendix V of this Circular.

In considering whether to issue New HLFM Shares or to transfer existing HLFM Shares for the purpose of the Proposed New ESOS, the Board will take into consideration, *inter-alia*, factors such as the prevailing market price of HLFM Shares, funding consideration and dilutive effects on our Company's capital base and future returns.

To enable the Trustee to acquire existing HLFM Shares for the purpose of the trusts, the Trustee will be entitled from time to time to accept financial assistance (which include loans, transfer of money and third party guarantee) from our Group or a third party upon such terms and conditions as we and the Trustee may agree.

2.1.1 Salient features of the Bye-Laws

The salient features of the Bye-Laws (a draft of which is enclosed as Appendix IV of this Circular) are as follows:

(i) **Maximum amount of HLFG Shares under the Proposed New ESOS**

At any point of time during the existence of the Proposed New ESOS, the aggregate number of HLFG Shares comprised in:

- (a) exercised Options;
- (b) unexercised Options;
- (c) unexpired Offers pending acceptance by all the Eligible Executives; and
- (d) exercised Options, unexercised Options and unexpired Offers pending acceptances, under any other ESOS established by our Company which are still subsisting,

shall not exceed an amount equivalent to 10% of the issued and paid-up ordinary share capital (excluding treasury shares) of our Company at any one time (“**Maximum Aggregate**”).

(ii) **Eligibility**

To be eligible for participation in the Proposed New ESOS, a person must be at least 18 years of age on the Date of Offer and satisfy the following conditions:

- (a) be an executive of a Member of the Group and has been confirmed in service; or
- (b) be a director of a Member of the Group.

The Board may from time to time at its absolute discretion select and identify suitable Eligible Executives to be offered Options.

(iii) **Offers**

A Member of the Group may at its absolute discretion at any time and from time to time as it shall deem fit during the existence of the Proposed New ESOS make one or more Offers for an Option to an Eligible Executive. An Offer for an Option may be made upon such terms and conditions as the Board may, at its absolute discretion, decide from time to time, and shall be in such form and substance as determined by the Board.

The Board may also at its absolute discretion determine:

- (a) the date which an Offer for an Option is made to an Eligible Executive;
- (b) the financial and performance targets or criteria, if any, as it may in its absolute discretion prescribe;
- (c) the starting date and duration of the Option Performance Period;
- (d) the number of HLFG Shares comprised in an Earned Option at the end of the Option Performance Period, based on the achievement of the prescribed financial and performance targets or criteria;
- (e) any other terms and conditions as the Board may from time to time deem appropriate; and

(f) to make such changes as the Board may deem fit or appropriate.

The allocation to an Eligible Executive who, either singly or collectively through persons connected with the Eligible Executive, holds 20% or more of the issued and paid-up ordinary share capital (excluding treasury shares) of our Company must not exceed 10% of the Maximum Aggregate.

(iv) Acceptance of Offer

Unless otherwise specified in an Offer for an Option, an Offer for an Option must be accepted by the offeree within 30 days from the Date of Offer (or such longer period of time as may be permitted by the Board at its discretion) by way of a written notice of acceptance and in such manner as may be prescribed by the Board, and accompanied by a payment to the relevant Member of the Group of a sum of RM1.00 only as non-refundable consideration for the Option. The date of receipt by the relevant Member of the Group of such written notice and payment shall constitute the date of acceptance.

The Offer for an Option is personal to the offeree and cannot be assigned, transferred, encumbered or otherwise disposed of in any other manner whatsoever, without the prior consent of the Board. An Offer for an Option or any part thereof which has not been accepted shall automatically lapse and be null and void.

(v) Option Price

The Board may at its discretion determine the Option Price provided that the Option Price so fixed shall not be at a discount of more than 10% (or such discount as the relevant authorities shall permit) from the 5-day WAMP of the HLFG Shares preceding the Date of Offer and shall in no event be less than the par value of the HLFG Shares.

(vi) Exercise of Options

Except where it is otherwise specifically allowed under the Bye-Laws, the Option granted to an Option Holder under the Proposed New ESOS is exercisable by that Option Holder only during his employment or directorship with the HLFG Group, within the Option Exercise Period and subject to any other terms and conditions as may be contained in the Option Certificate. The minimum period which an Option must be held before it can be exercised, if any, may be determined by the Board at its absolute discretion.

(vii) Rights attaching to the HLFG Shares

In the event that any New HLFG Shares are to be allotted upon the exercise of an Option, they shall, upon issue and allotment, rank *pari passu* in all respects with the existing issued and paid-up ordinary share capital of our Company, except that they will not rank for any dividend, right, entitlement or distribution, in respect of which the record date precedes the allotment date of the New HLFG Shares and will be subject to all the provisions of the Articles of Association of our Company relating to transfer, transmission or otherwise.

In the event that any existing HLFG Shares are to be transferred upon the exercise of an Option, the existing HLFG Shares shall be transferred together with all dividends, rights, entitlements and distributions, in respect of which the record date is on or after the transfer date.

(viii) Retention period

Upon the exercise of an Option, the HLFG Shares received by the Option Holders may be subject to such retention period or restriction of transfer as may be determined by the Board at its absolute discretion.

(ix) Alteration of share capital and adjustment

Subject to the Bye-Laws, in the event of an alteration in the capital structure of our Company during the Scheme Period (as defined in Section 2.1.1(xi) below), whether by way of capitalisation issue, rights issues, bonus issue, consolidation or subdivision of HLFG Shares, capital reduction or any other variation of capital, adjustments (if any) may be made to:

- (a) the number of HLFG Shares relating to an Option or any portion thereof that is unexercised;
- (b) the number of HLFG Shares comprised in an Offer; and/or
- (c) the Option Price,

as determined by the Board to be in its opinion appropriate. In determining the computation for the adjustment, the Board shall be guided by the provisions for adjustments as provided in the Annexure to the Bye-Laws. Any adjustments other than on a bonus issue must be confirmed in writing by the external auditors or the principal adviser (which must be a principal adviser under the Principal Adviser Guidelines issued by the Securities Commission of Malaysia) of our Company, having regard to the provisions for adjustments as provided in the Annexure to the Bye-Laws. Nevertheless, the decision of the Board shall be final and binding in all respects on the Option Holders.

(x) Modification/Variation to the Scheme

Subject to the Bye-Laws, the approval of Bursa Securities or any other relevant authorities, as may be required, the power to amend or modify all or any of the provisions of the Scheme and the Bye-Laws shall rest with our Board of Directors provided that no amendment shall alter adversely the rights attaching to any Option granted prior to such amendment except with the approval of the Option Holders at a meeting called for this purpose where the Option Holders:

- (a) if voting by a show of hands, a simple majority of those present and voting; or
- (b) if voting by poll, a simple majority of the Option Holders present and voting and whose entitlement shall be 1 vote for each HLFG Share comprised in their respective Options,

vote in favour of such amendment or modification.

Where the Listing Requirements prescribe that a provision under the Bye-Laws cannot be modified or amended to the advantage of participants under the Scheme without the approval of our Company at a general meeting, such provision can only be modified or amended with the approval of the Company at a general meeting.

(xi) Duration and termination of the Scheme

The effective date for the implementation of the Proposed New ESOS (“**Effective Date**”) shall be a date to be determined by our Board of Directors as soon as practicable after the date of full compliance with all the relevant requirements of the Listing Requirements, including the following:

- (a) submission of the final copy of the Bye-Laws to Bursa Securities pursuant to paragraph 6.42 of the Listing Requirements;
- (b) the receipt of approval-in-principle for the listing of the New HLFG Shares to be issued under the Proposed New ESOS from Bursa Securities;

- (c) procurement of approval of shareholders of our Company for the Proposed New ESOS;
- (d) receipt of approval of any other relevant authorities, where applicable; and
- (e) fulfilment of all conditions attached to the aforesaid approvals, if any.

The Proposed New ESOS shall be in force for a period of 10 years from the Effective Date (“**Scheme Period**”).

The Proposed New ESOS may be terminated by our Company prior to the expiry of the Scheme Period provided our Company is allowed to, by the Listing Requirements, and continues to fulfil its contractual obligation to all Option Holders. Upon termination of the Scheme, no further Offers shall be made by a Member of the Group.

(xii) Trustees

In the event that the Board decides to satisfy the exercise of Options by the transfer of existing HLFG Shares to Option Holders:

- (a) the Board may appoint a trustee or trust company upon such terms and conditions as the Board may deem fit to enable the trustee to acquire existing HLFG Shares for the purpose of the Proposed New ESOS; and
- (b) our Company and any subsidiary or any third party may provide money or other permissible assistance under the Act to enable the trustee or trust company to acquire existing HLFG Shares to be held for the purposes of the Proposed New ESOS.

Our Company and/or its subsidiaries will appoint AmTrustee as the trustee to undertake the above.

2.2 Existing ESOS

HLFG had, on 23 January 2006, established the Existing ESOS for a period of 10 years and the Existing ESOS will expire on 22 January 2016.

Since the commencement of the Existing ESOS until the LPD, Options over 20,451,000 HLFG Shares had been offered to executives and/or executive Directors of HLFG Group, of which Options over 4,741,900 HLFG Shares had been exercised and Options over 4,480,000 HLFG Shares had lapsed.

In relation to Options over HLFG Shares granted to executive Directors of HLFG pursuant to the Existing ESOS up to the LPD, the details are as below:

| | No. of HLFG Shares | | | |
|-----------------------------|---------------------------|--------------------------|-----------------------|----------------------------|
| | Options Offered | Options Exercised | Options Lapsed | Options Outstanding |
| Executive Directors of HLFG | 15,800,000 | (3,927,000) | (3,045,000) | 8,828,000 |

All of the Options exercised were satisfied by the transfer of existing HLFG Shares to the Option holders, which represents approximately 0.45% of the issued and paid-up ordinary share capital of our Company as at the LPD.

Pursuant to the bye-laws of the Existing ESOS, at any time during the existence of the Existing ESOS, the aggregate allocation to Directors and senior management of our Group must not exceed 50% of the Maximum Allocation (as defined below). As at the LPD, the total Options offered to executive Directors and senior management of our Group amounted to approximately 11.94% of the Maximum Allocation. Maximum Allocation is defined as such number of HLFG Shares not exceeding 15% of the issued and paid-up ordinary share capital (excluding treasury shares) of our Company at any one time.

2.3 Proposed Grant of Options to Directors

Our Company proposes to seek shareholders' approval at our forthcoming AGM for authority to grant Options to Mr Choong Yee How and Mr Quek Kon Sean, our President & Chief Executive Officer and Executive Director, respectively. As at the date of this Circular, the maximum allocation of HLFG Shares proposed to be allocated to them as well as the criteria that must be fulfilled by them to be entitled to the proposed allocation under the Proposed New ESOS have not been determined. In any case, the maximum allocation of HLFG Shares to them under the Proposed New ESOS is subject to the limit prescribed by the Bye-Laws as stated in Section 2.1.1(iii) of Part B of this Circular and the Board shall have the discretion in prescribing the financial and performance targets, if any, that need to be fulfilled by them to be entitled to the proposed allocation.

3. UTILISATION OF PROCEEDS

The actual proceeds to be received pursuant to the exercise of the Options under the Proposed New ESOS will depend on the actual number of Options granted and exercised, and the Option Price payable upon the exercise of the Options. Therefore, the amount of proceeds to be raised from the exercise of the Options is not determinable at this juncture.

In the event that New HLFG Shares are to be allotted upon the exercise of the Options, the proceeds from the exercise of the Options shall be utilised for the working capital of our Company.

In the event that existing HLFG Shares are to be transferred upon the exercise of the Options, the proceeds from the exercise of the Options shall be utilised to pay for the cost of purchasing the said HLFG Shares and/or to purchase additional HLFG Shares for the purpose of the Proposed New ESOS.

The estimated expenses in relation to the establishment of the Proposed New ESOS is approximately RM75,000.

4. RATIONALE FOR THE PROPOSED NEW ESOS

The purpose of the Proposed New ESOS is to achieve the following objectives:

- (i) align the long term interests of Eligible Executives with those of the shareholders of our Company and encourage Eligible Executives to assume greater responsibility for the performance of the businesses that they manage;
- (ii) motivate Eligible Executives towards strategic business objectives;
- (iii) reward Eligible Executives with an equity stake in the success of our Group; and
- (iv) make the total compensation package more competitive in order to attract, retain and motivate high calibre executives.

The Proposed New ESOS will provide our Company with a fresh 10-year ESOS period as compared with the remaining duration of approximately 3 years under the Existing ESOS, to facilitate the implementation of the option plans, taking into account, *inter-alia*, the performance period that may be required to achieve the prescribed financial and performance targets or criteria.

5. EFFECTS OF THE PROPOSED NEW ESOS

5.1 Issued and paid-up share capital

The Proposed New ESOS is not expected to have any immediate effect on the issued and paid-up ordinary share capital of our Company. The issued and paid-up ordinary share capital of our Company will increase depending on the number of New HLFG Shares to be issued arising from the exercise of Options under the Proposed New ESOS. However, if existing HLFG Shares are transferred to Eligible Executives pursuant to the exercise of Options under the Proposed New ESOS, there will be no effect on the issued and paid-up ordinary share capital of our Company.

5.2 Substantial shareholders' shareholdings

The Proposed New ESOS will not have any immediate effect on the shareholdings of the substantial shareholders of our Company. Any effect on the shareholdings of the substantial shareholders would depend on the number of New HLFG Shares to be issued arising from the exercise of Options under the Proposed New ESOS.

5.3 Earnings and earnings per share

The Proposed New ESOS is not expected to have any immediate effect on the earnings of our Group. Malaysian Financial Reporting Standards (MFRS) 2 issued by the Malaysian Accounting Standards Board requires the cost relating to the Options granted to be measured at the grant date and recognised as an expense over the vesting period. This would have an effect on the future earnings of our Group. However, the potential effect of the Proposed New ESOS on the earnings per share of our Group in the future, as a consequence of the recognition of the expense at each Date of Offer, cannot be determined at this juncture as it would depend on various factors that affect the fair value of the granted HLFG Shares in connection with the acceptance of offers.

5.4 NA per share and gearing

The Proposed New ESOS is not expected to have an immediate effect on the NA per share and gearing of our Group based on its latest audited consolidated financial statements as at 30 June 2012 until such time that the Options under the Proposed New ESOS are exercised. The effect would depend on, amongst others, the Option Price and the number of New HLFG Shares to be issued upon the exercise of the Options.

5.5 Convertible securities

As at the LPD, save for 11,229,100 outstanding Options under the Existing ESOS, our Company does not have any outstanding convertible securities.

6. APPROVALS REQUIRED

The Proposed New ESOS is conditional upon approvals being obtained from the following:

- (i) your approval; and
- (ii) Bursa Securities, for the listing of the New HLFG Shares to be issued pursuant to the exercise of the Options to be granted under the Proposed New ESOS.

The approval of Bursa Securities which was obtained via its letter dated 18 September 2012, is subject to, amongst others, the following conditions:

| Conditions imposed | Status of compliance |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| (i) HLIB is required to submit a confirmation to Bursa Securities of full compliance of the Proposed New ESOS pursuant to paragraph 6.43(1) of the Listing Requirements and stating the effective date of implementation together with a certified true copy of the resolution passed by the shareholders in general meeting approving the Proposed New ESOS; | To be complied |
| (ii) HLFG is required to furnish Bursa Securities on a quarterly basis a summary of the total number of HLFG Shares listed pursuant to the exercise of Options under the Proposed New ESOS as at the end of each quarter together with a detailed computation of listing fees payable; and | To be complied |
| (iii) HLFG is required to ensure full compliance of all the requirements pertaining to the Proposed New ESOS as provided under the Listing Requirements at all times. | To be complied |

7. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, our Company expects to implement the Proposed New ESOS by the first quarter of year 2013.

8. HISTORICAL SHARE PRICES OF HLFG

The monthly highest and lowest market prices of HLFG Shares traded on Bursa Securities for the past 12 months from October 2011 to September 2012 are as follows:

| | High RM | Low RM |
|-------------|--------------------|-------------------|
| 2011 | | |
| October | 12.00 | 10.02 |
| November | 11.98 | 10.80 |
| December | 11.90 | 11.06 |
| 2012 | | |
| January | 12.26 | 11.50 |
| February | 12.32 | 11.52 |
| March | 12.52 | 11.82 |
| April | 12.56 | 11.54 |
| May | 12.18 | 11.36 |
| June | 12.36 | 11.74 |
| July | 12.60 | 12.00 |
| August | 12.88 | 11.98 |
| September | 12.08 | 11.54 |

The last transacted market price of HLFG Shares on 27 July 2012, being the immediate Market Day prior to the announcement of the Proposed New ESOS

12.32

The last transacted market price of HLFG Shares on 2 October 2012 (being the latest practicable date prior to the printing of this Circular)

12.00

(Source: Bloomberg)

9. OTHER INTENDED CORPORATE EXERCISE/SCHEME WHICH HAVE BEEN ANNOUNCED BUT NOT YET COMPLETED

Save for the Proposed New ESOS, there is no other corporate exercise/scheme that has been announced by our Company but not yet completed as at 2 October 2012, being the latest practicable date prior to the printing of this Circular.

10. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDER(S) AND/OR PERSONS CONNECTED WITH THEM

Our Company proposes to seek shareholders' approval for authority to grant Options to Mr Choong Yee How and Mr Quek Kon Sean, our President & Chief Executive Officer and Executive Director, respectively. As such, Mr Choong Yee How and Mr Quek Kon Sean, by virtue of their eligibility to participate in the Proposed New ESOS, are deemed interested in respect of their respective proposed allocation under the Proposed New ESOS.

Mr Choong Yee How and Mr Quek Kon Sean have abstained and will continue to abstain from deliberation and voting by our Board of Directors in respect of their respective proposed allocation under the Proposed New ESOS.

Further, Mr Choong Yee How and Mr Quek Kon Sean will abstain from voting, in respect of their direct and/or indirect interests in our Company, on the proposed ordinary resolutions pertaining to their respective proposed allocation under the Proposed New ESOS at our forthcoming AGM. Mr Choong Yee How and Mr Quek Kon Sean have undertaken that they will also ensure that persons connected with them will abstain from voting on their direct and/or indirect shareholdings, if any, on the proposed ordinary resolutions pertaining to Mr Choong Yee How's and Mr Quek Kon Sean's respective proposed allocation under the Proposed New ESOS at our forthcoming AGM.

YBhg Tan Sri Quek Leng Chan, our Director and deemed major shareholder, is the father of Mr Quek Kon Sean and is deemed interested in the proposed allocation to Mr Quek Kon Sean. Accordingly, he has abstained and will continue to abstain from deliberation and voting by our Board of Directors in respect of Mr Quek Kon Sean's proposed allocation under the Proposed New ESOS. YBhg Tan Sri Quek Leng Chan will also abstain from voting, in respect of his direct and/or indirect interests in HLFG, on the proposed ordinary resolution pertaining to Mr Quek Kon Sean's proposed allocation under the Proposed New ESOS at our forthcoming AGM. He will also ensure that persons connected with him will abstain from voting on their direct and/or indirect shareholdings, if any, on the proposed ordinary resolution pertaining to Mr Quek Kon Sean's proposed allocation under the Proposed New ESOS at our forthcoming AGM.

The shareholdings of YBhg Tan Sri Quek Leng Chan, Mr Choong Yee How and Mr Quek Kon Sean in HLFG as at the LPD are as follows:

| Name | Direct | | Indirect | |
|-----------------------------|---------------------------|----------|----------------------------|----------|
| | No. of HLFG Shares | % | No. of HLFG Shares | % |
| YBhg Tan Sri Quek Leng Chan | 4,989,600 | 0.47 | 824,437,300 ⁽¹⁾ | 78.31 |
| Mr Choong Yee How | 2,992,000 | 0.28 | - | - |
| Mr Quek Kon Sean | 935,000 | 0.09 | - | - |

Note:

⁽¹⁾ Held through Hong Leong Company (Malaysia) Berhad and company(ies) in which YBhg Tan Sri Quek Leng Chan has interests.

None of the directors and major shareholders of our Company and/or persons connected with them have any interest, direct or indirect, in the Proposed New ESOS.

11. DIRECTORS' RECOMMENDATION

Our Board of Directors, having considered all aspects of the Proposed New ESOS (including but not limited to the rationale in respect of the Proposed New ESOS), is of the opinion that the Proposed New ESOS as a whole is in the best interest of our Company and accordingly, our Board of Directors recommends that you vote in favour of the proposed ordinary resolution in relation to the Proposed New ESOS to be tabled at our forthcoming AGM.

Our Board of Directors (except for Mr Choong Yee How who has abstained from expressing any opinion in relation to his proposed allocation under the Proposed New ESOS, and YBhg Tan Sri Quek Leng Chan and Mr Quek Kon Sean who have abstained from expressing any opinion in relation to the proposed allocation to Mr Quek Kon Sean under the Proposed New ESOS), having considered all aspects of the proposed allocations, is of the opinion that the proposed allocations are in the best interest of our Company and accordingly, our Board of Directors (except for Mr Choong Yee How who has abstained from making any recommendation in relation to his proposed allocation and YBhg Tan Sri Quek Leng Chan and Mr Quek Kon Sean who have abstained from making any recommendation in relation to the proposed allocation to Mr Quek Kon Sean) recommends that you vote in favour of the proposed ordinary resolutions in relation to the proposed allocations to be tabled at our forthcoming AGM.

12. AGM

The proposed ordinary resolutions in respect of the Proposed New ESOS and the proposed allocations will be tabled at our forthcoming AGM to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 30 October 2012 at 11.30 a.m. or at any adjournment thereof. The said resolutions are set out in the 2012 Annual Report of HLFM.

The notice of our forthcoming AGM and the Form of Proxy are enclosed in the 2012 Annual Report of HLFM, which is despatched together with this Circular.

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

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

13. FURTHER INFORMATION

Please refer to the appendices for further information.

Yours faithfully
For and on behalf of the Board of Directors

CHOONG YEE HOW
President & Chief Executive Officer

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” 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:
- (a) a director of the listed issuer, its subsidiary or holding company; or
 - (b) a chief executive of the listed issuer, its subsidiary or holding company; and
 - (c) in relation to a special purpose acquisition company (“SPAC”), a member of the SPAC’s management team.
- “major shareholder” 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:
- (a) 10% or more of the aggregate of the nominal amounts of all the voting shares in the corporation; or
 - (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)
- or any other corporation which is its subsidiary or holding company.
- (For the purpose of this definition, “interest in shares” has the meaning given in Section 6A of the Act).
- “person connected” 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:
- (a) a family member of the director, major shareholder or management team member;
 - (b) a trustee of a trust (other than a trustee for a share scheme for employees 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;

- (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 10 SEPTEMBER 2012

| Company | Interest of HLCM as at 10.09.2012 (%) | 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; and 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 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 | 64.70 | Commercial banking business and provision of related services which include Islamic Banking business, real property investment, nominee services and investment holding |
| 8. Hong Leong Capital Berhad and its subsidiaries and associated corporations | 79.09 | Investment holding; investment banking, stockbroking business, futures broking and related financial services; nominees and custodian services; and 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 |

| Company | Interest of HLCM as at 10.09.2012 (%) | Nature of business |
|------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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; and 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; and 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; and 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; and 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 development and investment; and hospitality and leisure business as well as financial services including stock and commodity broking and investment advisory |
| 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; and processing and trading of detergent products |

ACTIVITIES OF HLF_G'S SUBSIDIARIES AS AT 10 SEPTEMBER 2012

| Name of company | Effective % held | Principal Activities |
|--------------------------------------------|-----------------------------|---------------------------------------------------|
| Subsidiary companies | | |
| 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 | 65.00 | Takaful business |
| Hong Leong Assurance Berhad | 70.00 | Life insurance business |
| HLAH Assets Sdn Bhd | 100.00 | Investment holding |
| RC Holdings 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 |

DRAFT BYE-LAWS OF THE PROPOSED NEW ESOS

1. DEFINITIONS

1.1 In this Scheme 2012, unless otherwise specified, the following definitions shall apply throughout:-

| | | |
|---------------------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Act” | : | Companies Act, 1965, as amended from time to time and any re-enactment thereof |
| “Articles” | : | Articles of Association of the Company, as amended from time to time |
| “Associate Corporation” | : | A Corporation in which at least 20% but not more than 50% of the shares are held directly or indirectly by HLFG |
| “Board” | : | Board of directors of the Company or board of directors of the relevant subsidiary of the Company (as the case may be, in respect of Eligible Executives in the said subsidiary only) or a duly authorised committee thereof or an individual authorised by the board of directors |
| “Board Lot” | : | A parcel of Shares comprising one hundred (100) units or any other number of shares permitted to be traded by Bursa Securities as a board lot |
| “Bursa Securities” | : | Bursa Malaysia Securities Berhad |
| “Bye-Laws” | : | These Bye-Laws of the Scheme 2012, as amended from time to time |
| “Corporation” | : | A body corporate as defined in Section 4 of the Act |
| “Date of Offer” | : | The date on which an Offer is made by a Member of the Group in writing to an Eligible Executive |
| “Disciplinary Proceeding” | : | Proceedings instituted by the employer of an Option Holder against an Option Holder for any alleged misbehaviour, misconduct or any other acts of an Option Holder deemed to be unacceptable by that employer whether or not such disciplinary proceedings may give rise to a dismissal or termination of service of such Option Holder |
| “Earned Option” | : | An Option or any part thereof that is exercisable by an Option Holder following the fulfilment of the prescribed financial and performance targets or criteria (if any) within such period as may be determined by the Board and as confirmed by the issue of a letter from the relevant Member of the Group |
| “Eligible Executive” | : | Any person who is eligible to participate in the Scheme 2012 pursuant to Bye-Law 4.1 |
| “HLFG” or “the Company” | : | Hong Leong Financial Group Berhad (8024-W), a company incorporated in Malaysia |
| “HLFG Group” or “Group” | : | HLFG and all its subsidiaries (as defined in Section 5 of the Act) from time to time |

| | | |
|------------------------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Listing Requirements” | : | Listing Requirements of Bursa Securities, as amended from time to time |
| “Market Day” | : | Any day which Bursa Securities is open for trading of securities |
| “Member of the Group” | : | HLFG or any of its subsidiaries |
| “Offer” | : | An offer made in writing by a Member of the Group to an Eligible Executive to participate in the Scheme 2012 in the manner provided in these Bye-Laws |
| “Option” | : | An option contract, by whatever name called, between a Member of the Group and the relevant Option Holder, the exercise of which may be conditional or unconditional as determined by the Board, constituted by the issuance of an Option Certificate after the acceptance of an Offer |
| “Option Certificate” | : | An option certificate or letter for an Option issued by a Member of the Group in relation to an accepted Offer |
| “Option Exercise Period” | : | The period during which an Earned Option may be exercised as determined by the Board and specified in an Option Certificate |
| “Option Holder” | : | An Eligible Executive who is the holder of a valid Option Certificate |
| “Option Performance Period” | : | The period determined by the Board for the achievement of the financial and performance targets or criteria |
| “Option Price” | : | The exercise price for Shares set out in an Option Certificate as determined by the Board under Bye-Law 7 |
| “Principal Adviser” | : | Shall have the meaning assigned to it under the Listing Requirements |
| “Related Corporation” | : | A Corporation related to HLFG as defined in Section 6 of the Act |
| “RM” and “sen” | : | Ringgit Malaysia and sen respectively |
| “Scheme 2012” or “ESOS 2012” | : | The executive share option scheme established by these Bye-Laws as modified and altered from time to time |
| “Scheme Period” | : | The period as set out in Bye-Law 19.2 |
| “Shares” or “HLFG Shares” | : | Ordinary shares in the issued share capital of HLFG |

1.2 In these Bye-Laws, unless the context requires otherwise, words denoting the singular number shall include the plural number and words denoting one gender shall include the other gender.

1.3 The headings in these Bye-Laws are for convenience only and shall not be taken into account in the interpretation of these Bye-Laws.

- 1.4 If an event is to occur on a stipulated day which is not a Market Day, then the stipulated day will be taken to be the first Market Day after that day.

2. ADMINISTRATION

The Scheme 2012 shall be administered by the Board in such manner as it shall at its discretion deem fit. Without prejudice to the generality of the foregoing, the Board shall have power from time to time to make, or vary, regulations relating to the Scheme 2012 provided that such regulations are not inconsistent with the provisions of these Bye-Laws.

3. OPTIONS UNDER THE SCHEME 2012

- 3.1 At any point of time during the existence of the Scheme 2012, the aggregate number of Shares comprised in:-

- (a) exercised Options;
- (b) unexercised Options;
- (c) unexpired Offers pending acceptance by all the Eligible Executives; and
- (d) exercised options, unexercised options and unexpired offers pending acceptances, under any other executive share option schemes established by the Company which are still subsisting;

(hereinafter referred to as “**the Aggregate**”) shall not exceed an amount equivalent to ten percent (10%) of the issued and paid-up ordinary share capital (excluding treasury shares) of the Company at any one time (hereinafter referred to as “**the Maximum Aggregate**”).

- 3.2 Notwithstanding the provision of Bye-Law 3.1 and any other provision herein contained, in the event the Aggregate exceeds the Maximum Aggregate as a result of the Company purchasing its own Shares in accordance with the provisions of Section 67A of the Act or undertaking any other corporate exercise and reducing its issued and paid-up ordinary share capital, then all Offers and Options granted prior to the adjustment of the issued and paid-up ordinary share capital of the Company shall remain valid and exercisable in accordance with the provisions of this Scheme 2012 as if that reduction had not occurred. However, in such a situation, no further Options shall be offered until the Aggregate falls below the Maximum Aggregate.

4. ELIGIBILITY

- 4.1 To be eligible for participation in the Scheme 2012, a person must be at least eighteen (18) years of age on the Date of Offer and satisfy the following conditions:-

- (a) be an executive of a Member of the Group and has been confirmed in service; or
- (b) be a director of a Member of the Group.

- 4.2 The Board may from time to time at its absolute discretion select and identify suitable Eligible Executives to be offered Options.

- 4.3 An Eligible Executive who remains on the payroll of a Member of the Group will be entitled to participate in the Scheme 2012 notwithstanding that such Eligible Executive may have been seconded to an Associate Corporation.

- 4.4 Where an Option Holder is transferred to a Related Corporation or an Associate Corporation (hereinafter referred to as “**Subsequent Corporation**”) from one Member of the Group, the Board may at its discretion allow the Option Holder to exercise his Option within such period as the Board may determine and any Option not exercised by him within such period shall automatically lapse and be null and void, of no further force and effect and without any claim whatsoever against the relevant Member of the Group and the Company. Any Options outstanding and held by the Option Holder will automatically lapse and be null and void as at the date of his transfer to the Subsequent Corporation, unless otherwise decided by the Board.
- 4.5 Eligibility under the Scheme 2012 does not confer on an Eligible Executive a claim or right to participate in or any rights whatsoever under the Scheme 2012 and an Eligible Executive does not acquire or have any rights over or in connection with Options or the Shares comprised in the Scheme 2012 unless an Option Certificate has been issued by a Member of the Group to the Eligible Executive.

5. OFFERS

- 5.1 A Member of the Group may at its absolute discretion at any time and from time to time as it shall deem fit during the Scheme 2012 make one or more Offers for an Option to an Eligible Executive. An Offer for an Option may be made upon such terms and conditions as the Board may, at its absolute discretion, decide from time to time, and shall be in such form and substance as determined by the Board.
- 5.2 Subject to any adjustment which may be made under Bye-Law 12, the Board may, from time to time, at its absolute discretion determine the number of Shares and the terms and conditions to be comprised in an Offer made to an Eligible Executive under the Scheme 2012.
- 5.3 The Board may also at its absolute discretion determine:
- (a) the date which an Offer for an Option is made to an Eligible Executive;
 - (b) the financial and performance targets or criteria, if any, as it may in its absolute discretion prescribe;
 - (c) the starting date and duration of the Option Performance Period;
 - (d) the number of Shares comprised in an Earned Option at the end of the Option Performance Period, based on the achievement of the prescribed financial and performance targets or criteria;
 - (e) any other terms and conditions as the Board may from time to time deem appropriate; and
 - (f) to make such changes as the Board may deem fit or appropriate.
- 5.4 The allocation to an Eligible Executive who, either singly or collectively through persons connected with the Eligible Executive (as defined in the Listing Requirements), holds twenty percent (20%) or more of the issued and paid-up ordinary share capital (excluding treasury shares) of HLFG must not exceed ten percent (10%) of the Maximum Aggregate.
- 5.5 In the circumstances where the maximum allowable allotment as provided in the Listing Requirements on employees share option scheme is amended by Bursa Securities (or any relevant authority) from time to time, the Board shall have the discretion to make the necessary adjustments so that the number of Shares comprised in the Options that may be offered to any Eligible Executive shall be in accordance with the provisions of the Listing Requirements on employees share option scheme.

6. ACCEPTANCE OF OFFER

- 6.1 Unless otherwise specified in an Offer for an Option, an Offer for an Option must be accepted by the offeree within thirty (30) days from the Date of Offer (or such longer period of time as may be permitted by the Board at its discretion) by way of a written notice of acceptance and in such manner as may be prescribed by the Board, and accompanied by a payment to the relevant Member of the Group of a sum of Ringgit Malaysia One (RM1.00) only as non-refundable consideration for the Option. The date of receipt by the relevant Member of the Group of such written notice and payment shall constitute the date of acceptance.
- 6.2 The relevant Member of the Group shall within thirty (30) days from the date of acceptance issue to the offeree an Option Certificate in such form as may be determined by the Board.
- 6.3 If an Offer for an Option is not accepted in the manner aforesaid, such Offer shall upon the expiry of the period referred to in Bye-Law 6.1 automatically lapse and be null and void and of no further effect.
- 6.4 The Offer for an Option is personal to the offeree and cannot be assigned, transferred, encumbered or otherwise disposed of in any other manner whatsoever, without the prior consent of the Board. An Offer for an Option or any part thereof which has not been accepted shall automatically lapse and be null and void.

7. OPTION PRICE

The Board may at its discretion determine the Option Price Provided That the Option Price so fixed 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 preceding the Date of Offer and shall in no event be less than the par value of the Shares.

8. EXERCISE OF OPTIONS

- 8.1 Except where it is otherwise specifically allowed under these Bye-Laws, the Option granted to an Option Holder under the Scheme 2012 is exercisable by that Option Holder only during his employment or directorship with the Group, within the Option Exercise Period and subject to any other terms and conditions as may be contained in the Option Certificate. The minimum period which an Option must be held before it can be exercised, if any, may be determined by the Board at its absolute discretion.
- 8.2 Subject to Bye-Law 8.3, an Option granted under the Scheme 2012 shall only be capable of being exercised on a Market Day within the Option Exercise Period.
- 8.3 An Option Holder may, in a particular period, exercise his Earned Option up to such maximum number of Shares as determined by the Board and specified in the Option Certificate.
- 8.4 All Earned Options must be exercised by the end of the Option Exercise Period, failing which all remaining unexercised Options shall automatically lapse and be null and void and of no further effect.
- 8.5 An Option Holder shall notify the relevant Member of the Group in writing of his intention to exercise his Earned Option in such form as may be prescribed by the Board. The Earned Option or the balance thereof may be exercised in full (subject to any prescribed limit) or in respect of such lesser number of Shares as the Option Holder may decide to exercise Provided That such lesser number shall be in multiples of and not less than a Board Lot.

- 8.6 Options which have been exercised may be satisfied, at the discretion of the Board, by the issue of new Shares by the Company and/or by the transfer of existing Shares by the trustee as provided under Bye-Law 29 to the Option Holder.
- 8.7 Every notice of exercise of an Option shall be accompanied by the relevant Option Certificate, and a remittance (in the form of a bank draft or cashier's order drawn on a bank in Kuala Lumpur) for the full amount payable in relation to the number of Shares in respect of which the Earned Option is being exercised and the Option Holder shall provide the relevant Member of the Group with his Central Depository System ("CDS") Account number. An Option shall be deemed to be exercised upon the receipt by the relevant Member of the Group of the said notice duly completed, the Option Certificate and the full amount of the exercise price in the manner as specified by the Board for the exercise of the Option. Subject to any approval of any competent authority as may be necessary and subject to compliance with the Bye-Laws, the relevant Member of the Group shall within eight (8) Market Days (or such other period as may be prescribed in the Listing Requirements) of receiving such notice, allot and/or transfer and/or caused to be allotted/transferred the relevant number of Shares and despatch the notice of allotment and/or transfer to the Option Holder, subject to the provision of the Articles. No physical share certificate will be issued.
- 8.8 Where an Earned Option is exercised only in part, the Option Certificate shall be endorsed by the Board stating, inter-alia, the number of Shares comprised in the Option which remain capable of exercise.
- 8.9 Notwithstanding anything to the contrary contained in these Bye-Laws, the Board shall have the absolute discretion, by notice in writing to an Option Holder who is being subjected to any Disciplinary Proceeding to suspend his rights to exercise his Option pending the outcome of such Disciplinary Proceeding. In addition to this right of suspension, the Board may impose such terms and conditions as it shall deem appropriate, in its absolute discretion, on the right of exercise of the Option having regard to the nature of the charges made or brought against such Option Holder, Provided Always That:-
- (a) in the event such Option Holder is found not guilty of the charges which gave rise to such Disciplinary Proceeding at the end of its proceedings, the Board shall reinstate the rights of such Option Holder to exercise his Option as if such Disciplinary Proceeding had not been instituted in the first place;
 - (b) in the event the Disciplinary Proceeding resulted in a recommendation for the dismissal or termination of service of such Option Holder, the Option shall immediately lapse and be null and void and of no further force and effect upon pronouncement of the dismissal or termination of service of such Option Holder notwithstanding that such recommendation may be subsequently challenged by the Option Holder in any other forum; and
 - (c) in the event such Option Holder is found guilty but no dismissal or termination of service is recommended, the Board shall have the right to determine at its absolute discretion whether or not the Option Holder may continue to exercise his Option and if so, to impose such limits, terms and conditions as the Board deems appropriate, on such exercise.

9. RIGHTS ATTACHING TO THE SHARES

In the event that any new Shares are to be allotted upon the exercise of an Option, they shall, upon issue and allotment, rank *pari passu* in all respects with the existing issued and paid-up ordinary share capital of the Company, except that they will not rank for any dividend, right, entitlement or distribution, in respect of which the record date precedes the allotment date of the new Shares and will be subject to all the provisions of the Articles relating to transfer, transmission and otherwise.

In the event that any existing Shares are to be transferred upon the exercise of an Option, the existing Shares shall be transferred together with all dividends, rights, entitlements and distributions, in respect of which the record date is on or after the transfer date.

For the purpose hereof, the expression “record date” means the date as at the close of business on which shareholders must be registered as members of the Company in order to participate in any dividend, right, entitlement or distribution.

10. LISTING AND QUOTATION OF SHARES

The Company will apply to Bursa Securities for listing of and quotation for any new Shares to be issued under the Scheme 2012 and will use its best endeavours to obtain permission for such listing and quotation.

11. RETENTION PERIOD

Upon the exercise of an Option, the Shares received by the Option Holders may be subject to such retention period or restriction of transfer as may be determined by the Board at its absolute discretion.

Non-executive directors who have obtained Shares through the exercise of Options offered to them pursuant to the Scheme 2012, must not sell, transfer or assign such Shares within one (1) year from the Date of Offer.

12. ALTERATION OF SHARE CAPITAL AND ADJUSTMENT

12.1 Subject to Bye-Law 12.4 below, in the event of an alteration in the capital structure of the Company during the Scheme Period, whether by way of capitalization issue, rights issues, bonus issue, consolidation or subdivision of Shares, capital reduction or any other variation of capital, adjustments (if any) may be made to:-

- (a) the number of Shares relating to an Option or any portion thereof that is unexercised;
- (b) the number of Shares comprised in an Offer; and/or
- (c) the Option Price,

as determined by the Board to be in its opinion appropriate. In determining the computation for the adjustment, the Board shall be guided by the provisions for adjustments as provided in the Annexure to these Bye-Laws. Any adjustments other than on a bonus issue must be confirmed in writing by the external auditors or the Principal Adviser of the Company, having regard to the provisions for adjustment as provided in the Annexure to these Bye-Laws. Nevertheless, the decision of the Board shall be final and binding in all respects on the Option Holders.

Provided that no adjustment to the Option Price shall be made which would result in new Shares issued on the exercise of Options being issued at less than the par value of the Shares, and if such an adjustment would but for this provision result in the Option Price being less than the par value, the Option Price payable shall be at the par value.

12.2 In the event that a fraction of a Share arises from the adjustments referred to in this Bye-Law 12, the number of Shares comprised in the Options or Offer shall automatically be rounded down to the nearest whole number.

- 12.3 The Board shall in writing and within thirty (30) Market Days of any adjustment as determined by the Board pursuant to Bye-Law 12.1, notify the Option Holders and holders of Offers (or his legal or personal representatives where applicable) of the adjustments.
- 12.4 No adjustments as provided in Bye-Law 12.1 or otherwise shall apply where the alteration in the capital structure of the Company arose from:-
- (a) an issue of securities in consideration or part consideration for an acquisition;
 - (b) a special issue of securities to Bumiputera investors nominated by the Ministry of International Trade and Industry, Malaysia and/or any other government authority to comply with Government policy on Bumiputera capital participation;
 - (c) an issue of securities as a private placement;
 - (d) a restricted issue of securities;
 - (e) implementation of a share buy-back arrangement by the Company under Section 67A of the Act;
 - (f) any issue of warrants, convertible loan stocks or other instruments by the Company that gives a right of conversion into Shares, and any issue of new Shares arising from the exercise of any conversion rights attached to such convertible securities;
 - (g) an issue of further Options to Eligible Executives under the Scheme 2012 or under any other executive share option scheme established by the Company;
 - (h) an issue of new Shares upon the exercise of Options granted under the Scheme 2012; or
 - (i) an issue of new Shares arising from a dividend reinvestment scheme which allows shareholders of the Company an option to elect to reinvest their cash dividend entitlements into new Shares.

13. TAKE-OVER

- 13.1 Notwithstanding Bye-Law 8, in the event of a takeover offer being made for the Company by a general offer or otherwise and resulting in a change of control (as shall be notified by the Company or the Board) and upon such offer becoming or being declared unconditional, the Board may at its absolute discretion allow any Option Holder, within six (6) months of the date on which such takeover offer becomes or is declared unconditional, to exercise in whole or in part the Option remaining unexercised and any Options remaining unexercised shall, unless the Board in its absolute discretion otherwise determines, lapse and be null and void.
- 13.2 In addition, if any person becomes entitled or bound to exercise rights of compulsory acquisition of the Shares of the Company under the provisions of the Act or the Capital Markets and Services Act 2007 and gives notice to an Option Holder that it intends to exercise such rights on a specific date, the Board may at its absolute discretion allow any Option Holder to exercise in whole or in part the Option remaining unexercised until the expiry of such specified date and any Options remaining unexercised shall, unless the Board in its absolute discretion otherwise determines, lapse and be null and void.
- 13.3 Notwithstanding Bye-Laws 13.1 and 13.2, the exercise of Options must nevertheless be within the Option Exercise Period.

14. SCHEME OF ARRANGEMENT, AMALGAMATION, RECONSTRUCTION, ETC

Notwithstanding Bye-Law 8, in the event of the court sanctioning a compromise or arrangement between the Company and its members proposed for the purposes of, or in connection with, a scheme of arrangement and reconstruction of the Company under Section 176 of the Act or its amalgamation with any other company or companies under Section 178 of the Act or pursuant to any other applicable laws, the Board may at its absolute discretion allow any Option Holder to exercise all or any part of his Option remaining unexercised at any time commencing from the date upon which the compromise or arrangement is sanctioned by the court and ending on the date upon which, in the opinion of the Board, it has been fully implemented, or on any other date specified by the Board within the Option Exercise Period, failing which any unexercised Options and any Options remaining unexercised shall, unless the Board in its absolute discretion otherwise determine, lapse and be null and void.

15. MODIFICATION / VARIATION TO THE SCHEME 2012

15.1 Subject to Bye-Law 15.3, the approval of Bursa Securities or any other relevant authorities, as may be required, the power to amend or modify all or any of the provisions of the Scheme 2012 and these Bye-Laws shall rest with the board of directors of the Company provided that no amendment shall alter adversely the rights attaching to any Option granted prior to such amendment except with the approval of the Option Holders at a meeting called for this purpose where the Option Holders:-

- (a) if voting by a show of hands, a simple majority of those present and voting; or
- (b) if voting by poll, a simple majority of the Option Holders present and voting and whose entitlement shall be one (1) vote for each Share comprised in their respective Options,

vote in favour of such amendment or modification.

15.2 The quorum for the meeting of Option Holders shall be two (2) Option Holders unless there is only one (1) Option Holder, in which case, the quorum for the meeting shall comprise the single Option Holder only.

15.3 Where the Listing Requirements prescribe that a provision under these Bye-Laws cannot be modified or amended to the advantage of participants under the Scheme 2012 without the approval of the Company at a general meeting, such provision can only be modified or amended with the approval of the Company at a general meeting.

16. TERMINATION OF OPTIONS

16.1 Upon the cessation of employment of an Option Holder with any Member of the Group for any reason whatsoever prior to the exercise of his Option or any part thereof, any outstanding Option shall subject to Bye-Law 16.2, forthwith cease and become incapable of exercise as if the same had never been granted in the first place unless the Board decides otherwise.

16.2 Where the Option Holder ceases his employment with any Member of the Group by reason of:-

- (a) ill-health, injury or disability;
- (b) transfer to a Related Corporation or an Associate Corporation; or
- (c) other reasons or circumstances which are acceptable to the Board,

the Board may at its absolute discretion allow the Option Holder to exercise in whole or in part the Option remaining unexercised within such period as the Board may allow and upon the expiry of such period as determined by the Board, any Options remaining unexercised shall lapse and be null and void.

- 16.3 Where an Option Holder retires and is immediately re-employed by any Member of the Group, upon his re-employment, the Board may at its absolute discretion allow the Option Holder to either:-
- (a) exercise in whole or in part his unexercised Option within such period as the Board may allow; or
 - (b) continue with the Option, subject to these Bye-Laws as if that Option Holder has never ceased employment.
- 16.4 Upon the bankruptcy of an Option Holder, any and all unexercised portion of the Option shall immediately become null and void and of no further effect as if the same had never been granted in the first place.
- 16.5 In the event that an Option Holder dies before exercising the Option in full, such Option shall automatically lapse and become null and void at the date of his death, unless otherwise decided by the Board. If the Board, at its absolute discretion so permits, the Option may be exercised by the duly appointed personal representative of the Option Holder to its full extent within such period as may be determined by the Board.
- 16.6 If an Option lapses in accordance with the terms of its Option Certificate, any and all unexercised portion of that Option shall immediately become null and void and of no further effect as if the same had never been granted in the first place.
- 16.7 The number of Shares comprised in unexercised Options which becomes null and void under this Bye-Law 16 will not form part of the Maximum Aggregate and continue to be available under the Scheme 2012.

17. DIVESTMENT FROM THE GROUP

If an Option Holder was in the employment of a Member of the Group which was subsequently divested, then:-

- 17.1 notwithstanding such divestment or any of the provisions of any Bye-Law herein, the Board may at its absolute discretion allow the Option Holder to continue to exercise in whole or in part the Option remaining unexercised within such period as the Board may determine, failing which the right of such Option Holder to exercise his Option shall automatically lapse and be null and void and of no further force and effect; and
- 17.2 such Option Holder shall not be eligible to participate further under the Scheme 2012.

18. LIQUIDATION OF THE COMPANY

Upon the commencement of winding-up of the Company, all unexercised Options, earned and unearned, shall lapse and be null and void and be of no further force and effect.

19. DURATION AND TERMINATION OF THE SCHEME 2012

- 19.1 The effective date for the implementation of the Scheme 2012 (“**Effective Date**”) shall be a date to be determined by the board of directors of the Company as soon as practicable after the date of full compliance with all the relevant requirements of the Listing Requirements, including the following:-
- (a) submission of the final copy of the Bye-Laws to Bursa Securities pursuant to paragraph 6.42 of the Listing Requirements;
 - (b) the receipt of approval-in-principle for the listing of the Shares to be issued under the Scheme 2012 from Bursa Securities;
 - (c) procurement of approval of shareholders of the Company for the Scheme 2012;
 - (d) receipt of approval of any other relevant authorities, where applicable; and
 - (e) fulfilment of all conditions attached to the aforesaid approvals, if any.
- 19.2 The Scheme 2012 shall be in force for a period of ten (10) years from the Effective Date (“**Scheme Period**”).
- 19.3 The Scheme 2012 may be terminated by the Company prior to the expiry of the Scheme Period provided the Company is allowed to, by the Listing Requirements, and continues to fulfill its contractual obligation to all Option Holders. Upon termination of the Scheme 2012, no further Offers shall be made by a Member of the Group.

20. TAXES

All taxes (including income tax), if any, arising from the exercise of any Option under the Scheme 2012 shall be borne by the Option Holders.

21. COSTS AND EXPENSES

- 21.1 The Option Holders shall be responsible for all charges of Bursa Malaysia Depository Sdn Bhd (“**Bursa Depository**”) relating to or in connection with the issue and allotment/transfer of any Shares in Bursa Depository’s name and the crediting of the Shares to the Option Holders’ CDS Accounts.
- 21.2 Save for the taxes referred to in Bye-Law 20 and the fees referred to in Bye-Law 21.1, all fees, costs and expenses in relation to the Scheme 2012 including but not limited to the fees, costs and expenses relating to the issue and allotment/transfer of the Shares by or on behalf of the Company pursuant to the exercise of any Option shall be borne by the Company. However, the Company can require the relevant Member of the Group to reimburse the Company for any fees, costs and expenses borne by the Company (whether directly or indirectly), or to pay for such fees, costs and expenses directly.

22. DISCLAIMER OF LIABILITY

Notwithstanding any provisions contained herein and subject to the Act, the Board, the Company and any Member of the Group shall not under any circumstances be held liable for any cost, losses, expenses and damages whatsoever and howsoever arising in any event, including but not limited to the Company’s or the relevant Member of the Group’s delay in transferring or causing to be transferred, any Shares to the Option Holders, or allotting and issuing the new Shares or in applying for or procuring the listing of the Shares on Bursa Securities.

23. DISPUTES

Any dispute or difference of any nature arising hereunder shall be referred to the decision of the Board, whose decision shall be final and binding in all respects on the Option Holders.

24. NO RIGHT TO COMPENSATION / NOT TERM OF EMPLOYMENT

24.1 The Scheme 2012 shall not afford an Option Holder the right to compensation or damages in the event of the cessation of his employment or appointment for any reason whatsoever.

24.2 The Scheme 2012 does not form part, nor shall it in any way be construed as part, of the terms and conditions of employment of any Eligible Executive. Participation in this Scheme 2012 by an Option Holder is a matter entirely separate from his terms or conditions of employment and participation in this Scheme 2012 shall in no respects whatever affect in any way his terms and conditions of employment or form part of such terms and conditions. In particular (but without limiting the generality of the foregoing words) any Option Holder who leaves employment shall not be entitled to any compensation for any loss of any right or benefit or prospective right or benefit under this Scheme 2012 which he might otherwise have enjoyed whether such compensation is claimed by way of damages for wrongful dismissal or other breach of contract or by way of compensation for loss of office or otherwise howsoever.

25. INSPECTION OF THE AUDITED FINANCIAL STATEMENTS

All Option Holders shall be entitled to inspect a copy of the latest audited financial statements of the Company which shall be made available at the registered office of the Company during normal office hours on any working day of the Company.

26. NOTICE

26.1 Any notice/communication which under the Scheme 2012 is required to be given to or served upon the Board or the relevant Member of the Group by an Eligible Executive or Option Holder shall be given or served in writing and either delivered by hand or sent to the registered office of the relevant Member of the Group by facsimile or ordinary mail. Such notice/communication shall be deemed to have been duly given or served on the Board or the relevant Member of the Group:-

- (a) if sent by hand, upon delivery at the registered address of the relevant Member of the Group;
- (b) if sent by mail, upon actual receipt; and
- (c) if sent by facsimile, upon receiving a transmission receipt.

26.2 Any notice/communication which under the Scheme 2012 is required to be given to or served upon an Eligible Executive or Option Holder by the Board or relevant Member of the Group shall be deemed to be sufficiently given or served if the notice/communication is in writing and either delivered by hand or sent to the Eligible Executive or Option Holder by facsimile or ordinary mail addressed to them at their place of employment or at the last address known to the relevant Member of the Group as being their address. Any notice/communication served by post as aforesaid shall be deemed to have been received on the third day after the day the letter is posted, including that day.

26.3 Any notice/communication served after the relevant Member of the Group's official working hours shall be deemed to have been served on the next working day.

27. ARTICLES

Notwithstanding the terms and conditions contained in this Scheme 2012, if a situation of conflict should arise between this Scheme 2012 and the Articles, the provisions of the Articles shall prevail at all times.

28. INTERPRETATION

The Board shall have the authority to interpret these Bye-Laws and to give effect to the terms and conditions of the Scheme 2012. The interpretation by and the decision of the Board shall be final and binding.

29. TRUSTEES

In the event that the Board decides to satisfy the exercise of Options by the transfer of existing Shares to Option Holders:-

- 29.1 the Board may appoint a trustee or trust company upon such terms and conditions as the Board may deem fit to enable the trustee to acquire existing Shares for the purpose of the Scheme 2012; and
- 29.2 the Company and any subsidiary or any third party may provide money or other permissible assistance under the Act to enable the trustee or trust company to acquire existing Shares to be held for the purposes of the Scheme 2012.

Provision for adjustments to the number of Shares relating to an Option and/or Option Price referred to in Bye-Law 12.1

1. Definitions

Unless the words are otherwise defined herein or the context otherwise requires, all words and expressions defined in the Bye-Laws shall have the same meanings when used in this Annexure.

2. Adjustments

Subject to the Bye-Laws and as hereinafter provided, the number of Shares relating to an Option and/or the Option Price to which an Option Holder is entitled to subscribe shall from time to time be adjusted in accordance with the following relevant provisions:-

- (i) If and whenever a Share by reason of consolidation or subdivision or conversion shall have a different par value, the Option Price shall be adjusted by multiplying it by the revised par value and dividing the result by the former par value, and the number of Shares relating to an Option shall be adjusted by multiplying the existing number of Shares comprised in the Option held by the former par value and dividing the result by the revised par value. Each such adjustment will be effective from the Market Day immediately following the entitlement date for the consolidation or subdivision or conversion or such other date as may be prescribed by Bursa Securities.
- (ii) If and whenever the Company shall make any issue of Shares to the shareholders of the Company (“**Shareholders**”) credited as fully paid, by way of capitalization of profits or reserves (including any share premium account and capital redemption reserve fund), the Option Price shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{A + B}$$

and the number of Shares comprised in the Option shall be adjusted by multiplying the existing number of Shares comprised in the Option by the following fraction:

$$\frac{A + B}{A}$$

Where:-

- A = the aggregate number of issued and fully paid-up Shares immediately before such capitalization issue; and
- B = the aggregate number of Shares to be issued pursuant to any allotment to Shareholders credited as fully paid-up by way of capitalization of profits or reserves (including any share premium account and capital redemption reserve fund).

Each such adjustment will be effective (if appropriate retroactively) from the Market Day immediately following the entitlement date of such issue or such other date as may be prescribed by Bursa Securities.

- (iii) If and whenever the Company shall make:
- (a) a Capital Distribution (as defined below) to Shareholders whether on a reduction of capital or otherwise (save and except any capital reduction involving the cancellation of capital which is lost or unrepresented by available assets); or
- (b) any offer or invitation to Shareholders whereunder they may acquire or subscribe for Shares by way of rights; or

- (c) any offer or invitation to Shareholders by way of rights whereunder they may acquire or subscribe for securities convertible into Shares or rights to acquire or subscribe for Shares,

then and in respect of each such case, the Option Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{C - D}{C}$$

and in respect of the case referred to in paragraph 2(iii)(b) hereof, the number of Shares comprised in the Option shall be adjusted by multiplying the existing number of Shares comprised in the Option by the following fraction:

$$\frac{C}{C - D^*}$$

Where:-

- C = the Current Market Price (as defined in paragraph 2(iv) below) of each Share on the last Market Day immediately preceding the date the Shares are traded on “ex entitlement” basis (as prescribed by Bursa Securities) for the Capital Distribution or, as the case may be, the offer or invitation; and
- D = (aa) in the case of an offer or invitation to acquire or subscribe for Shares under this paragraph 2(iii)(b) above or for securities convertible into or with rights to acquire or subscribe for Shares under paragraph 2(iii)(c), the value of rights attributable to one (1) Share (as defined below); or
- (bb) in the case of any other transaction falling within this paragraph 2(iii) hereof, the fair market value, as determined by an independent professional party, of that portion of the Capital Distribution attributable to one (1) Share.

For the purpose of paragraph (aa) of D above, the “value of the rights attributable to one (1) Share” shall be calculated in accordance with the formula:

$$\frac{C - E}{F + 1}$$

where:-

- C = as C above;
- E = the subscription consideration for one (1) additional Share under the terms of such offer or invitation or subscription price of one (1) additional Share upon conversion of the convertible securities or exercise of such rights to acquire or subscribe for one (1) Share under the offer or invitation;
- F = the number of Shares which is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Share or security convertible into rights to acquire or subscribe for one (1) additional Share;
- D* = the value of rights attributable to one (1) Share (as defined below).

For the purpose of definition D* above, the “value of the rights attributable to one (1) Share” shall be calculated in accordance with the formula:-

$$\frac{C - E^*}{F^* + 1}$$

where:-

C = as C above;

E* = the subscription consideration for one (1) additional Share under the terms of such offer or invitation; and

F* = the number of Shares which is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Share.

For the purpose of paragraph 2(iii) hereof, “Capital Distribution” shall (without prejudice to the generality of that expression) include distributions in cash or specie or by way of issue of Shares (not falling under paragraph 2(ii) hereof) or other securities credited as fully or partly paid up by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund). Any dividend charged or provided for in the accounts pertaining to any period shall (whenever paid and howsoever described) be deemed to be a Capital Distribution unless it is paid out of the aggregate of the net attributable to the Shareholders as shown in the audited consolidated profit and loss accounts of the Company.

Each such adjustment will be effective (if appropriate, retroactively) on the Market Day immediately following the entitlement date for the above transaction or such other date as may be prescribed by Bursa Securities.

- (iv) “Current Market Price” in relation to each Share for any relevant day shall be the weighted average market price for each Share for the five (5) consecutive Market Days before such date for one (1) or more board lots of Shares on Bursa Securities.

SALIENT FEATURES OF THE DRAFT SUPPLEMENTAL TRUST DEEDS

Unless otherwise provided, all the definitions herein shall have the same meanings as provided for in Part B of this Circular.

1. The object of the trust is to facilitate the implementation of the Existing ESOS and the Proposed New ESOS by acquiring and transferring HLFG Shares (“**Trust Shares**”) to beneficiaries.
2. The Trustee will, at the request of the Board and upon receipt of sufficient funds from the Company, its subsidiaries or a third party, purchase such number of HLFG Shares from the market or subscribe for such number of HLFG Shares as the Board may direct.
3. To enable the Trustee to purchase or subscribe for the HLFG Shares for the purposes of the trust deed, the Trustee will be entitled from time to time to accept financial assistance (which includes loans, transfers of money and third party guarantee) from the Company, its subsidiaries or a third party upon such terms and conditions as the Company and the Trustee may agree.
4. The trust will immediately terminate if:
 - (a) the scheme period of the Existing ESOS and the Proposed New ESOS comes to an end; or
 - (b) there are no Option Holders for the time being under the Existing ESOS and the Proposed New ESOS, and the Company issues a notice to the Trustee terminating the trust.
5. Immediately upon the termination of the trust, the Trustee may:
 - (a) sell all remaining Trust Shares then held by the Trustee and deal with all investments held by the Trustee in accordance with the instructions of the Company; or
 - (b) if so requested by the Company, transfer the remaining Trust Shares to a trustee for the purpose of the Company’s future or other executive/employee share option scheme.
6. Subject only to the variations and amendments and substitutions herein contained, all conditions covenants undertakings provisions and terms contained in or subsisting in the original trust deed shall remain in full force and effect and shall be construed to be enforceable as if the above mentioned terms of the supplemental trust deed were inserted therein by way of additions and substitutions as the case may be and any reference to the original trust deed shall be deemed to be a reference to the original trust deed as amended by the supplemental trust deed.

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. CONSENT AND DECLARATION OF CONFLICT OF INTERESTS

HLIB has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references in the form and context in which it appears. HLIB confirms that there is no conflict of interest existing or is likely to exist in its capacity as Adviser to HLFG in respect of the Proposed New ESOS, apart from it being related to HLFG, by virtue of HLFG being the ultimate holding company of HLIB. Notwithstanding the above, HLIB is a licensed investment bank and the appointment as the Adviser to HLFG for the Proposed New ESOS is in its ordinary course of business. Furthermore, the conduct of HLIB is regulated strictly by the Banking and Financial Institutions Act 1989, the Capital Markets and Services Act 2007 and its internal control policies and procedures.

3. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2012 (being the date of the latest audited consolidated financial statements which is available), save as disclosed below, the Directors of the Company are not aware of any material commitments incurred or known to be incurred by HLFG Group or any contingent liabilities which may, upon being enforceable, have a material adverse effect on HLFG Group's profits:

| | |
|------------------------------------------------------------------------------------------|------------------------------------|
| (a) Commitments and contingencies in the normal course of business of HLFG Group: | Principal Amount RM'000 |
| Direct credit substitutes | 494,801 |
| Certain transaction related contingent items | 1,410,727 |
| Short-term self liquidating trade related contingencies | 1,557,667 |
| Underwriting obligation | 71,513 |
| Commitments that are unconditionally cancellable at any time without prior notice | 304,099 |
| Irrevocable commitments to extend credit | 30,471,709 |
| Foreign exchange related contracts | 40,657,128 |
| Interest rate related contracts | 69,617,031 |
| Equity related contracts | 89,041 |
| Unutilised credit card lines | 9,200,627 |
| Total | 153,874,343 |
| Commitments and contingencies of HLFG: | RM'000 |
| Forward foreign exchange | 247,642 |
| Interest rate swaps | 800,000 |
| Cross currency swaps | 118,030 |
| Total | 1,165,672 |

(b) Hong Leong Asset Management Bhd, a wholly owned subsidiary company of Hong Leong Capital Berhad (“HLCB”), is the Manager of HLG Sectoral Fund (“Funds”), which comprises five sector funds. HLCB 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, HLCB 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 2012.

| | |
|------------------------------------------------------------|----------------|
| (c) Capital commitments for property and equipment: | RM’000 |
| Approved and contracted for | 12,004 |
| Approved but not contracted for | 98,734 |
| | <u>110,738</u> |

4. MATERIAL LITIGATION, CLAIMS AND ARBITRATION

As at the LPD, HLFG Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant and the Directors are not aware of any proceeding pending or threatened against the HLFG Group or any facts likely to give rise to any proceeding which might materially and adversely affect the business and financial position of the HLFG Group.

5. MATERIAL CONTRACTS

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 2 years immediately preceding the date of this Circular:

- 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 ordinary shares of RM1.00 each in HLB (“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. This transaction was completed on 18 October 2011.

6. 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 AGM:

- (i) Memorandum and Articles of Association of HLFG;
- (ii) audited consolidated financial statements of HLFG for the past 2 financial years ended 30 June 2011 and 2012;
- (iii) Bye-Laws of the Existing ESOS;
- (iv) draft Bye-Laws of the Proposed New ESOS;
- (v) existing trust deeds in relation to the Existing ESOS;
- (vi) draft supplemental trust deeds in relation to the Proposed New ESOS;
- (vii) consent letter referred to in Section 2 above; and
- (viii) material contracts referred to in Section 5 above.