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# Introduction

*Hong Leong Group has an integrated financial services group offering a comprehensive suite of conventional and Islamic products and services to meet the financial needs of its customers.*

- Personal Financial Services
  - Wholesale Banking
- Islamic Financial Services
  - Investment Banking
    - Insurance
    - Stockbroking
  - Asset Management
    - Unit Trust

Hong Leong Financial Group Berhad, the holding company for Hong Leong Group's banking and financial services, has over the years grown in strength and size through sound and focused business strategies aided by strong management and financial disciplines.

Through Hong Leong Bank Berhad, the Group provides comprehensive services in personal financial services, treasury, corporate and commercial banking and Islamic financial services. With more than a century of embedded presence and banking experience and with a wide network of branches nationwide, Hong Leong Bank Berhad has a solid market position and a well-recognised business franchise in Malaysia. Hong Leong Bank is one of the country's most valued brands, with integrity, trust and service as its core values.

It serves its diverse customer base through an integrated, multi-channel sales and distribution capability of entrenched 185 branches, 17 business and trade centres, more than 640 self-service terminals, a full-service inbound and outbound call centre, internet banking as well as phone banking and mobile banking services.

Hong Leong Bank has a regional presence through its branches in Singapore and Hong Kong. HL Bank in Singapore operates on a boutique investment banking and private banking business model. Hong Leong Bank Hong Kong's core businesses today are in treasury and wealth management and which includes Islamic Banking having launched an Islamic Banking window, the first in the territory.

To further embed itself in the region, Hong Leong Bank ventured into the Mainland China market with its investment in the Bank of Chengdu Company Limited, the largest city commercial bank in Western China. This is the first strategic banking investment by any Malaysian bank in China. Hong Leong Bank is also the first Malaysian and Southeast Asian bank to incorporate and operate a 100% wholly owned commercial bank in Vietnam.



Hong Leong Islamic Bank Berhad is a full fledged Islamic bank providing comprehensive Islamic banking and wealth management services. With innovative solutions covering areas of structured finance, capital markets, corporate & commercial financial services, personal financial services and takaful, Hong Leong Islamic Bank is ready to play a prominent role in the Malaysian Government's vision to transform Malaysia into a global hub for Islamic Financial Services.

Hong Leong Assurance Berhad, one of Malaysia's foremost home grown insurance companies, provides both life and general insurance services in Malaysia and in Hong Kong through its subsidiary Hong Leong Insurance (Asia) Limited. With several decades of business in Malaysia, Hong Leong Assurance continues to be true to its commitment of providing security and peace of mind to its customers.

The Group, through Hong Leong Investment Bank which is a subsidiary of HLG Capital, also provides investment banking and capital market services and solutions across the region. This includes corporate finance, stock broking, equity capital markets and debt capital markets.

The Asset Management arm of the Group is one of the largest fund management companies in Malaysia, with a sterling track record of managing assets across a spectrum of funds that include statutory bodies, state governments, insurance companies, corporations and unit trusts. HLG Unit Trust Berhad is one of the pioneers in the Malaysian Unit Trust industry and has established itself as a trusted brand name in the market.



## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Hong Leong Financial Group Berhad ("HLFG" or "the Group") for the financial year ("FY") ended 30 June 2009.

### OVERALL BUSINESS ENVIRONMENT

The Malaysian economy continued to record commendable real gross domestic product ("GDP") growth of 4.6% year-on-year ("y-o-y") in calendar year 2008, a deceleration however from the 6.3% y-o-y growth recorded in 2007. The lower economic growth was a result of the global financial crisis which developed throughout 2008. Suffice to say that it has been an extremely challenging time for the financial services sector.

Bank Negara Malaysia ("BNM") has also taken steps to further liberalise the domestic banking sector. On 27 April 2009, BNM announced the issuance of the following new financial services licenses:

- Up to two new commercial banking licenses to foreign specialised players.
- Up to three new commercial banking licenses to world class banks that offer significant value to Malaysia.
- Up to two new Islamic banking licenses to foreign players.
- Up to two new family takaful licenses.

Although we expect competition to intensify further given these new developments, the Group will continue to build businesses that are viable, resilient, globally competitive, sustainable and scalable.

### FINANCIAL PERFORMANCE

The HLFG Group registered an improved performance this year with a growth in profit before taxation of 2.7%, from RM1,120.2 million to RM1,150.2 million for the financial year ended 30 June 2009. Profit attributable to equity holders of the Company grew by 15.2% to RM632.0 million. For four straight years now, the Group has been delivering a record performance.

Our record earnings were driven primarily by continued strong growth in Hong Leong Bank Berhad's ("HLB") earnings, where profit before taxation grew 12.1% y-o-y to RM1,132.2 million. The strong earnings were achieved on the back of higher non-interest income (6.8% growth) and the maiden contribution of our 20%-owned associate in China, the Bank of Chengdu, which contributed RM99.5 million to HLFG's profit before taxation in FY09. The record earnings were achieved in spite of a goodwill impairment charge of RM57.2 million booked by our 75%-owned subsidiary HLG Capital Berhad's wholly-owned subsidiary Hong Leong Investment Bank Berhad ("HLIB").

Overall, return on equity improved from 13.9% in FY08 to 14.6% in FY09. Earnings per share ("EPS") grew by 15.3% y-o-y from 52.9 sen in FY08 to 61.0 sen in FY09.

Total assets for the Group grew from RM83.6 billion in the previous year to RM86.5 billion as at 30 June 2009 driven mainly by robust growth in HLB's assets. Total Shareholders' Equity grew from RM4.11 billion as at 30 June 2008 to RM4.57 billion as at 30 June 2009 whilst net assets per share of the Group increased from RM3.90 to RM4.34 as at 30 June 2009.

### Hong Leong Bank

The Banking Division of the Group, Hong Leong Bank Group ("HLB" or "the Bank"), registered a profit before taxation of RM1,132.2 million for the financial year ended 30 June 2009 as compared to RM1,010.0 million in the previous year reflecting growth of 12.1% y-o-y. The growth is partly due to higher non-interest income (18.9% growth) and the maiden contribution of 20%-owned Chinese associate Bank of Chengdu, whose share of profit was included effective 1 July 2008. The Bank of Chengdu contributed RM99.5 million or 8.8% of HLB's profit before taxation in FY09.

Asset quality continued to improve, with the gross non-performing loan ("NPL") ratio falling marginally from 2.4% in FY08 to 2.2% in FY09. Net NPL ratio edged downwards from 1.4% in FY08 to 1.3% in FY09, the second lowest among the domestic banking groups. Properly assessed risk-based decision making continues to be an important discipline within the Group and in line with this, our loan loss coverage improved from 103.8% in June 2008 to 109.1% as at June 2009. Loan loss provisions decreased marginally from RM158.5 million to RM156.7 million reflecting an improvement in asset quality due to the enforcement of stricter credit initiation criteria and improved loan collections. Earnings per share increased by 22.1% from 51.2 sen in the previous year to 62.5 sen in FY09. Overall, return on equity improved from the 15.3% achieved in FY08 to 16.7% in FY09.

Total assets for HLB grew by 2.5% y-o-y from RM77.5 billion to RM79.4 billion as at 30 June 2009. In terms of loan growth, the focus during the financial year was on ensuring the quality of HLB's loan book. Given the challenging economic environment, underwriting standards were tightened during the financial year. Thus, HLB's net loans only grew marginally from RM34.5 billion to RM34.8 billion as at 30 June 2009. We believe the enhanced underwriting standards will place the Bank in a better position to face challenges and uncertainties from the economic environment which lie ahead.

Customer deposits increased by 8.1% y-o-y to RM67.6 billion as at 30 June 2009, reflecting the Bank's strong deposit franchise. The Bank's strong deposit franchise continues to be a key competitive advantage of the Bank, providing it with a stable and reasonably priced funding source. The Bank remains strongly capitalised with a Capital Adequacy Ratio of 16.5% as at June 2009 even after the completion of the acquisition of a 20% equity

interest in the Bank of Chengdu in July 2008. This provides the Bank with ample room to pursue further opportunities for strategic growth, be it organic or inorganic.

### Hong Leong Assurance

The Insurance Division, Hong Leong Assurance Berhad ("HLA") registered a profit before taxation of RM86.7 million for the financial year ended 30 June 2009 as compared to RM105.7 million a year ago, a decrease of 18.0% y-o-y. The lower profit was primarily due to lower general premiums and lower investment income at HLA's 100%-owned subsidiary Hong Leong Insurance (Asia) Limited ("HLIA"). The lower investment income at HLIA was in tandem with weaker global equity markets resulting from the global financial crisis. Return on equity correspondingly declined from 17.8% in FY08 to 13.5% in FY09.

The Life Division continued to perform well with the surplus transfer from the Life Fund increasing to RM57.0 million versus RM55.0 million in the previous financial year. The Life Division's gross premiums increased by 17.8% y-o-y to RM921.7 million for the current financial year, benefiting from an enlarged agency force.

The General Division's underwriting surplus decreased by RM2.7 million to RM18.1 million in the current financial year, primarily due to lower premiums.

### HLG Capital Group

The Investment Banking Division, HLG Capital Berhad ("HLGC"), reported a loss before taxation of RM43.6 million for the financial year ended 30 June 2009 compared to a profit before taxation of RM32.2 million a year ago. The loss before taxation was primarily due to HLGC's wholly-owned subsidiary Hong Leong Investment Bank Berhad ("HLIB") booking a goodwill impairment charge of RM57.2 million. The goodwill impairment related to goodwill resulting from HLIB's acquisition of 100% equity interest in SBB Securities Sdn Bhd and the Identified Assets/Liabilities of Southern Investment Bank Berhad which were completed during the financial year. The rationale for the goodwill write-off was in order not to burden HLIB with any potential goodwill impairment in the future, so as not to disrupt in any way the building of its investment banking business franchise.

This was offset at the profit after taxation level by a one-off tax credit arising from the recognition of deferred tax assets of RM57.2 million due to unabsorbed tax losses carried forward. Hence overall, HLGC recorded a profit after taxation of RM12.5 million for the financial year ended 30 June 2009 as compared to RM27.1 million in the previous corresponding year, a decrease of RM14.6 million or 54.0% y-o-y.

The Stockbroking business recorded a lower profit before taxation of RM10.0 million arising from lower trading volumes on Bursa Malaysia. Trading volumes on Bursa Malaysia were affected by poor investor sentiment as a result of the global financial crisis.

The Asset Management business recorded a stable profit before taxation of RM7.8 million compared to the RM9.8 million recorded in the previous financial year. Although unit trust prices faced downward pressure due to lower global equity markets, assets under management (“AUM”) grew by 5.3% to RM2.9 billion as higher unit trust sales managed to offset the decline in AUM due to lower unit trust prices.

### **HONG LEONG FINANCIAL GROUP – TOWARDS ACHIEVING OUR VISION**

I am pleased to report, once again, that we continued to make significant progress this year. We continued to build upon the successes of our core businesses and have grown both organically and inorganically. Among the key milestones during the year were:

- ❖ HLB, on 21 July 2008, announced the completion of the subscription of a 20% equity interest in the Bank of Chengdu. This marks the Group’s first major overseas acquisition and its first foray into the large and fast-growing China market. The Bank of Chengdu has the fourth largest network in the locality and its presence extends to nine districts in Chengdu. A capital city of Sichuan province, Chengdu is the centre for politics, economics, finance and culture in Sichuan, South-West China.
- ❖ On 9 January 2009, HLB announced that it had been granted a license by the State Bank of Vietnam to operate a wholly-owned commercial bank in Vietnam with a charter capital of VND1 trillion (approximately RM205 million based on prevailing exchange rates). HLB is the first and only Malaysian and South East Asian bank to be given this 100% foreign-owned full commercial banking license. Hong Leong Bank Vietnam Limited (“HLBVN”) was incorporated on 9 July 2009 and is now working towards setting up its first branch in Ho Chi Minh City by the last quarter of calendar year 2009. HLBVN will allow the Group to expand into the fast developing Vietnamese economy which has a population of over 85 million.
- ❖ HLB’s treasury business, HL Markets, continues to be a strong contributor to the Group, with profit before taxation growing 35% y-o-y. Non-interest income from HL Markets rose 101% y-o-y and foreign exchange earnings rose by 51% y-o-y.

- ❖ With regard to Investment Banking, the acquisition of the entire equity interest in SBB Securities Sdn Bhd was completed on 22 October 2008. Subsequently the acquisition of the Identified Assets/Liabilities of Southern Investment Bank Berhad was completed on 31 January 2009. With these acquisitions, HLIB now offers stockbroking services at three locations, namely Kuala Lumpur, Damansara Utama and Ipoh. HLIB was also granted a Merchant Banking License by BNM and a Capital Markets and Services License by the Securities Commission, both of which were effective 31 January 2009. With these licenses, HLIB has achieved ‘investment bank’ status and hence adds an important new business franchise to the HLG Capital group of companies.

Through the introduction of need-based customer-relevant products and a conscious effort to increase public exposure through the media, we continue to build a strong and reputable brand name. Beyond this, we firmly believe that it is the people who make the difference in our organization. Hence, we remain committed to attract, retain and develop our human resource capabilities in the Group.

### **PROSPECTS**

The financial year ahead is expected to continue to be a challenging one due to increased competition and subdued global economic growth as the majority of economies attempt to recover from the effects of the global financial crisis. Notwithstanding this, your Board believes that the Group is well placed to take advantage of opportunities to enhance our competitive position, grow and increase our market share in the targeted customer segments in the financial services sector. With a solid Group vision, strong work ethics, strict financial discipline, and an entrepreneurial spirit we are confident of further enhancing our position as a leading integrated financial services group.

### **DIVIDENDS**

The Board of Directors, during the financial year under review had declared and paid total dividends of 23 sen per share less tax, similar to the 23 sen per share less tax paid in the previous financial year. This comprised a first interim dividend of 9 sen per share less 25% tax paid on 18 December 2008 (FY08: 9 sen per share less 26% tax) and a second interim dividend of 14 sen per share less 25% tax paid on 26 June 2009 (FY08: 14 sen per share less 26% tax). The Board has decided not to recommend a final dividend for the financial year ended 30 June 2009 (FY08 nil).

## **APPRECIATION**

I would like to take this opportunity to express my appreciation and gratitude to the Board of Directors, management and staff of HLFG Group for their dedication and commitment. My sincere appreciation also goes out to our regulators, shareholders, customers and business partners.

**Quek Leng Chan**  
Chairman  
16 September 2009





## President & Chief Executive Officer's Review

**I am pleased to present the President/CEO's report for the financial year ("FY") ended 30 June 2009. In this report, I would like to provide an update on where we are today and our plans for the future.**

### **FINANCIAL REVIEW – ANOTHER RECORD YEAR**

At the Group level, Hong Leong Financial Group ("HLFG" or "the Group") registered a growth in profit before taxation of 2.7% from RM1,120.2 million to RM1,150.2 million for the financial year ended 30 June 2009. The record earnings were also achieved in spite of a goodwill impairment charge of RM57.2 million booked by our 75%-owned subsidiary HLG Capital Berhad's ("HLGC") wholly-owned subsidiary Hong Leong Investment Bank Berhad ("HLIB"). Profit attributable to equity holders of the Company grew by 15.2% year-on-year ("y-o-y") to RM632.0 million, which represented the fourth consecutive record year for the Group in terms of earnings. Correspondingly, the return on average equity increased from 13.9% in FY08 to 14.6% in FY09. Earnings per share improved by 15.3% to 61.0 sen from 52.9 sen in the previous financial year.

Total assets for the Group grew from RM83.6 billion in the previous year to RM86.5 billion as at 30 June 2009 driven mainly by strong growth from the Banking division. Net assets per share of the Group increased from RM3.90 to RM4.34 as at 30 June 2009.

At the Company level, profit before taxation grew by 8.0% y-o-y to RM252.5 million for the financial year ended 30 June 2009 as compared to RM233.8 million in the previous financial year. This was mainly due to higher dividend income from subsidiaries in the current financial year.

The Company has maintained its full-year dividend at 23 sen per share as it endeavours to balance income received by shareholders with profits retained by the Company in order to have the flexibility of pursuing attractive investment opportunities as they arise from time to time.

## BUSINESS AND OPERATIONAL REVIEW

I am pleased to report that we continue to make progress in terms of growing our core businesses under the Group.

For the financial year just ended, the highlights of our achievements thus far are as follows:

- Our 64.3%-owned subsidiary Hong Leong Bank Berhad (“HLB” or “the Bank”) announced the completion of the subscription of 20% equity interest in the enlarged capital of Bank of Chengdu Co. Ltd (“Bank of Chengdu”) (formerly known as Chengdu City Commercial Bank Co. Ltd) in July 2008. This represents a significant step in establishing a regional presence. HLB is the first Malaysian bank to enter the Chinese banking sector with a strategic investment. The Bank of Chengdu shares the same traits as HLB of having a conservative and well-capitalised balance sheet. Gross non-performing loan (“NPL”) ratio stands at 3.5%, whilst the risk-weighted capital adequacy ratio (“RWCR”) stands at a healthy 16.8%. Balance sheet is unstretched with a loan/deposit ratio of 64.3% for the financial year 2008.
- HLB broadened its earnings base, with international operations contributing just over 10% of the Bank’s profit before taxation. The stable PFS segment, which has more granularity in its loan book among our retail customers, contributed 57% to HLB’s profit before taxation. The remainder of HLB’s profit before taxation was contributed mainly by our Wholesale Banking business. These contributions have enabled HLB’s return on equity to increase by 1.4% to 16.7% this year.
- HLB’s net NPL ratio, the second lowest among the domestic commercial banks, fell further to 1.3% as at June 2009. Both HLB’s gross (2.2%) and net NPL ratio remain well below industry levels.
- HLB retained its position as the domestic commercial bank with the highest risk-weighted capital adequacy ratio, even after the completion of the acquisition of 20% equity interest in Bank of Chengdu in July 2008. HLB ended the financial year with a RWCR of 16.5%. This provides HLB ample capital to pursue strategic acquisitions, should the right opportunity arise.
- HLB’s competitive advantage of having a strong deposit franchise continued to grow in strength. Customer deposits grew 8.1% y-o-y to RM67.6 billion. HLB ranks among the top 3 in size for stable retail deposits. Low cost retail deposits now constitute 31% of total retail deposits. HLB’s loan/deposit ratio of 51.5% provides ample room to expand our loan book as funding is not an issue.
- HLB ranked as the sixth largest commercial bank by assets. We continue to retain strong market positions in our target Personal Financial Services (“PFS”) loan segments of mortgages, credit card receivables and personal loans. We are the fourth largest mortgage provider and have the sixth largest credit card receivables loan book among all commercial banks.
- HLB also retained its position as the third largest independent unit trust agent (“IUTA”). Assets under management (“AUM”) at our core Malaysian operations grew by 18% during the year under review.
- HLB’s treasury business, HL Markets, continues to be a strong contributor to the Group, with profit before taxation surging 35% y-o-y, driven by a 51% y-o-y increase in foreign exchange (“FX”) earnings. In Asiamoney’s FX Poll 2009, HLB was voted by financial institutions to be the “Best Domestic Provider of FX Services”, underscoring our competitiveness in this segment.
- HLB is the first Malaysian and South East Asian bank to be awarded a license to operate a wholly-owned commercial bank in Vietnam. HLB is one of only five foreign banks to be awarded this license. This license will allow the Group to expand into the dynamic Vietnamese economy which has a population of over 85 million.
- Hong Leong Assurance Berhad’s (“HLA”) Life Business improved its market position in terms of new annualised regular premium sales from sixth to fifth in the market, on the back of a 42% y-o-y increase in new annualised regular premiums. Our market share of new annualized regular premiums has risen to 8.5% from 6.3% in the previous year.
- HLA’s General Business finished the year with the third largest market share in cargo insurance and the fourth largest market share for fire insurance.
- Our effective 75%-owned sub-subsidiary Hong Leong Investment Bank Berhad (“HLIB”) achieved ‘investment bank’ status on 31 January 2009. This completes the range of financial services licenses which the Group requires to offer our clients a complete suite of financial services within Malaysia. It also significantly expands the range of products and services that HLIB is able to offer. During the course of the coming financial year, HLIB plans to commence a number of business activities towards its aim of becoming a niche investment bank.
- HLeBroking, HLIB’s internet share trading portal, gained further progress during the year. This channel now contributes a significant 35% of HLIB’s gross brokerage after having been re-launched three years ago.

Human resource and talent management are one of the key pillars of our businesses and we have set in place initiatives to ensure that we have an environment that promotes meritocracy, entrepreneurship and long-term career development.

The momentum for bringing the business to the next level is there. For the next financial year, along with tightened risk controls, we intend to continue growing our core businesses of Commercial Banking, Islamic Financial Services, Insurance, Investment Banking, Stockbroking and Asset Management. HLB will focus on maintaining asset quality and hence the strength of its balance sheet. For the Bank of Chengdu, apart from maintaining asset quality, we will work with our Chinese counterparts and share best practices to build the foundation and framework to grow their business. For HLA, key will be the execution of our business plans and the strengthening of our management bench strength. For HLIB, priority will be placed on introducing new services in order to build a niche investment bank and ensuring that the right people are in place to drive the business.

The economic environment has become more challenging with higher degree of uncertainty and volatility coupled with weaker economic conditions. Whilst we shall be more vigilant in our businesses, we believe that these challenges will present opportunities for well capitalised Groups to make strategic acquisitions at reasonable prices.

## OTHER DEVELOPMENTS

HLIB in its present structure was formed on 31 January 2009. HLIB was granted a Merchant Banking license by Bank Negara Malaysia and a Capital Markets and Services license by the Securities Commission effective 31 January 2009. With the above licenses, HLIB attained 'investment bank' status. This was achieved after the completion of the following acquisitions/transfers on 31 January 2009:

- Acquisition of the Identified Assets/Liabilities of Southern Investment Bank Berhad by HLIB.
- Transfer of HLG Securities Sdn Bhd's ("HLGS") business to HLIB.
- Transfer of SBB Securities Sdn Bhd's ("SBBS") business to HLIB.

The acquisition of 100% equity interest in SBBS by HLIB was earlier completed on 22 October 2008.

In order to strengthen HLGC's capital position and to repay borrowings used to finance the above acquisitions, HLGC had on 19 January 2009 proposed a 1-for-1 rights issue at a rights issue price of RM1.00 per share. ("Proposed Rights Issue") The rights issue price has since been fixed at RM1.00 per share. The approval of HLGC's shareholders was obtained on 31 July 2009 at an Extraordinary General Meeting. The Proposed Rights Issue is expected to be completed by October 2009.

HLFG announced on 8 April 2009 a proposed rationalisation scheme to streamline and consolidate its equity holdings in 100%-owned sub-subsidiary Hong Leong Insurance (Asia) Ltd ("HLIA") and Hong Leong Tokio Marine Takafu Berhad ("HLTMT") under HLA Holdings Sdn Bhd ("HLAH"), an intermediate insurance holding company, wholly-owned by HLFG. ("Proposed Rationalisation")

Pursuant to the Proposed Rationalisation, the relevant parties had on 8 April 2009 entered into sale and purchase agreements ("SPAs") in relation to the transfers of the following equity interests:

- (i) Proposed transfer of 100% equity interest in HLIA from Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary of HLA, to HLAH ("Proposed HLIA Transfer");
- (ii) Proposed transfer of 10% equity interest in HLTMT from HLA to HLAH ("Proposed 10% HLTMT Transfer"); and
- (iii) Proposed transfer of 55% equity interest in HLTMT from HLB to HLAH ("Proposed 55% HLTMT Transfer").

The Proposed HLIA Transfer was completed on 31 July 2009. The Proposed HLTMT Transfers were completed on 1 September 2009. All transfers were transacted at the net asset value of the transferred company.

## RATING

We are pleased to announce that Malaysian Rating Corporation Berhad ("MARC") in August 2009 affirmed the short-term and long-term credit ratings of HLFG's RM300 million (2002/2009) and RM800 million (2007/2014) commercial paper and medium-term notes ("CP/MTN") programmes at AA-/MARC-1. The rating outlook is stable.

**APPRECIATION**

I would like to take this opportunity to express my gratitude to the Board of Directors, the management and to my colleagues and staff throughout the HLFG Group for their dedication and commitment.

My sincere appreciation also goes out to the regulators, shareholders, customers and business partners as well as to the community we serve for their continued faith and confidence in Hong Leong Financial Group.

**RAYMOND CHOONG YEE HOW**

President/CEO  
16 September 2009

## Corporate Social Responsibility

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



### ECONOMIC SUSTAINABILITY

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

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

### SOCIAL SUSTAINABILITY

#### Employee Development and Welfare

The Hong Leong Group follows structured development programmes to help develop both technical and soft skills of employees.

The Group's Total Achievers' Group Programme, initiated in Fiscal Year 2007/2008, is a structured 10-month programme to develop managerial talents into future leaders of the Group. This programme currently involves 28 managers from the various Group companies.

The Group's Graduate Development Programme aims to identify and develop young graduates into engineering talents to support the growth of the Group. This programme entails classroom training, on-the-job familiarisation, learning assignments as well as mentoring.

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



#### Diversity and Inclusion

With a total workforce of 30,000 and spread across North and Southeast Asia, Western Europe and the UK, North America and Oceania, the Hong Leong Group develops talent regardless of race, gender or religious belief. Staff advancement is based on merit and we believe that it is this variety of persuasions and culture that fuel creativity, entrepreneurship and openness.

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



#### Environmental Preservation

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

In addition, we conduct regular occupational safety and awareness programmes for our employees and participate in road safety campaigns during festive seasons to promote civic consciousness and safe driving habits in our community.

## COMMUNITY INVESTMENT

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

### Scholarship

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



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

Apart from these, a separate fund is set aside for scholarship grants for deserving children of Group staff. Both grants for the public and Group staff's children are unconditional.

### Student Assistance

Although primary and secondary education in Malaysia is free, there are still a number of students from low-income families who find it a challenge to avail of this educational opportunity. To address the immediate needs of these students, the Foundation reaches out to them through the Student Assistance Programme. To date, through this Programme, the Foundation has donated school bags, books, uniforms, bicycles and others to thousands of school children nationwide.

### School Building Fund

The Foundation actively pursues opportunities where it can play a part in improving the quality of education in the country today. Donations for the construction of bigger and better facilities for learning institutions help create an environment in which students can excel.

## Community Welfare

Every year, the Foundation donates to selected charities nationwide in an effort to help improve the lives of the less fortunate through its Community Welfare Programme. Through cash donations, charities are able to ensure their survival and their ability to provide shelter, food and clothing for all its residents – the young orphans, the aged who have been abandoned by their families, the sick, the disabled and the mentally challenged.

The Foundation has made substantial donations to many charities over the years. In this fiscal year alone, we have made donations to these charity bodies:

Women's Aid Organization, United Voice, P.S.The Children, Kiwanis Down Syndrome Foundation Kuantan, Yayasan Orang-Orang Kurang Upaya Kelantan, Penang Shan Children's Home Association, The National Autism Society of Malaysia, Rumah Kebajikan Kanak-Kanak Cacat Negeri Perak, The Salvation Army, Persatuan Perkhidmatan Komuniti Taiping, Pusat Jagaan Diamond Home, Hospis Malaysia, Pusat Haemodialisis Mawar, Yayasan Tunku Nurul Hayati, Touch Community Society Seremban, Montfort Youth Centre, Pertubuhan Perkhidmatan Intervensi Awal Batu Pahat, CHK Moral Uplifting Society Kidney Foundation, Kuching Autistic Association, Sarawak Thalassaemia Society, Mental Health Association of Sarawak Kuching Branch, Sarawak Society for Parents of Children with Special Needs, The Association for Children with Special Needs Sibu, Miri Red Crescent Dialysis Centre, Seri Mengasih Centre and Sabah Cheshire Home (Sandakan Branch).



## Small Enterprise Programme

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

Towards this end, we are working with various NGOs, among which are:

Yayasan Salam Malaysia, United Voice, Malaysian Aids Council, Shelter Home for Children, Rose Virginie Good Shepherd Centre and Persatuan Kanak-Kanak Istimewa Kajang, Selangor.

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





We are a  
diversified and  
experienced  
financial service  
provider  
committed to providing  
quality products and  
services to our  
customer



## Corporate Information

### ■ DIRECTORS

**YBhg Tan Sri Quek Leng Chan**  
(Chairman)

**Mr Choong Yee How**  
(President & Chief Executive  
Officer)

**Mr Quek Kon Sean**  
(Executive Director)

**YBhg Dato' Haji Kamarulzaman  
bin Mohammed**

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

**Dr Poh Soon Sim**

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

**Ms Yvonne Chia**

### ■ SECRETARY

**Ms Christine Moh Suat Moi**  
MAICSA No: 7005095

### ■ AUDITORS

Messrs PricewaterhouseCoopers  
Chartered Accountants  
Level 10, 1 Sentral  
Jalan Travers  
Kuala Lumpur Sentral  
50706 Kuala Lumpur  
Tel : 03-2173 1188  
Fax : 03-2173 1288

### ■ REGISTRAR

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

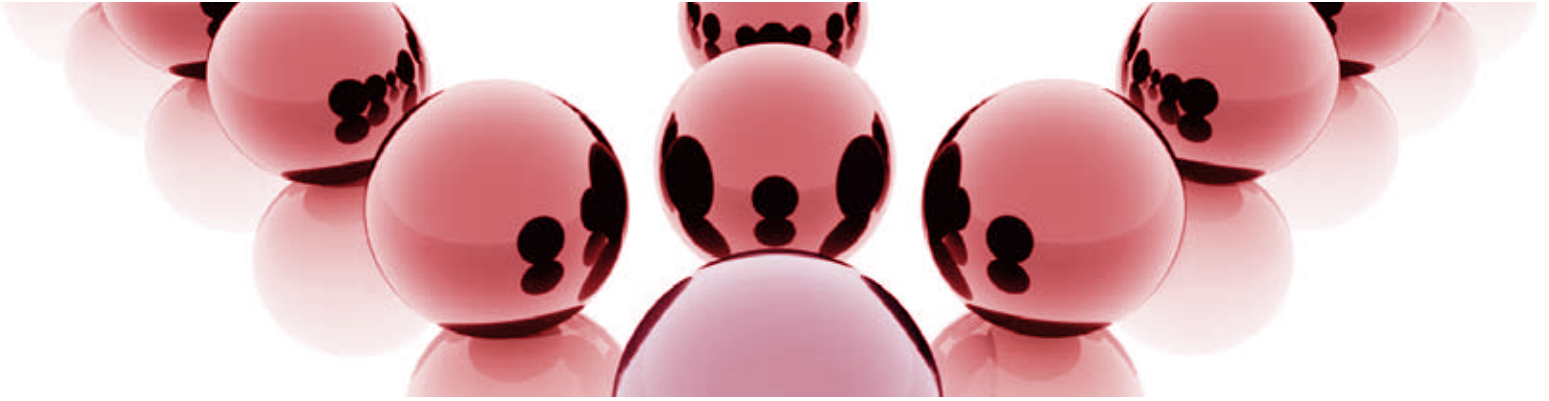
### ■ REGISTERED OFFICE

Level 8, Wisma Hong Leong  
18 Jalan Perak  
50450 Kuala Lumpur  
Tel : 03-2164 8228  
Fax : 03-2164 2503

### ■ WEBSITE

[www.hlfng.com.my](http://www.hlfng.com.my)

## Board of Directors' Profile



### ■ YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Independent

Tan Sri Quek Leng Chan, aged 66, a Malaysian, qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate.

Tan Sri Quek is the Chairman of Hong Leong Financial Group Berhad ("HLFG") and was appointed to the Board of Directors ("Board") of HLFG on 6 September 1968. He is a member of the Nominating Committee ("NC") of HLFG.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad, Executive Chairman of Hong Leong Industries Berhad, GuocoLand (Malaysia) Berhad, Hume Industries (Malaysia) Berhad and Narra Industries Berhad, and Chairman of Hong Leong Bank Berhad ("HLB"), HLG Capital Berhad ("HLGC"), companies listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), Hong Leong Islamic Bank Berhad ("HLISB"), Hong Leong Assurance Berhad ("HLA") and Hong Leong Foundation, all public companies.

Tan Sri Quek attended all the four Board meetings of HLFG held during the financial year ended 30 June 2009.

### ■ MR CHOONG YEE HOW

President & Chief Executive Officer/Non-Independent

Mr Choong Yee How, aged 53, a Malaysian, obtained a Bachelor of Science in Biochemistry (Honours) degree in 1979 and a Master of Business Administration in 1981 from the University of Otago, New Zealand. Mr Choong has over 25 years of experience in banking, of which 23 were with Citibank in Malaysia. Mr Choong started his career with Citibank Malaysia as a Management Associate and was promoted to assume various senior positions within the Citibank Group; the last being President and Chief Executive Officer of Citibank Savings Inc, Philippines. Mr Choong is currently the President & Chief Executive Officer of HLFG.

Mr Choong was appointed to the Board of HLFG on 1 December 2005.

Mr Choong attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2009.

Mr Choong is also a Director of HLB and HLGC, both companies listed on the Main Market of Bursa Securities and HLA, HLISB, Hong Leong Tokio Marine Takaful Berhad ("HLTMT") and Hong Leong Investment Bank Berhad (formerly known as HLG Credit Berhad) ("HLIB"), all public companies.

Hong Leong Financial Group Berhad has over the years grown in strength and size through sound and focused business strategies aided by strong management and financial disciplines.

#### ■ MR QUEK KON SEAN

Executive Director/Non-Independent

Mr Quek Kon Sean, aged 29, a Malaysian, obtained Bachelor of Science and Master of Science degree in Economics from the London School of Economics and Political Science. In 2002, Mr Quek joined Goldman Sachs International, London as an Analyst in the Investment Banking Division and in 2003, he joined HSBC, London in Debt Capital Markets. Mr Quek is currently the Executive Director of HLFG. Prior to joining HLFG, Mr Quek was the Management Executive of HL Management Co Sdn Bhd.

Mr Quek was appointed to the Board of HLFG on 1 December 2005.

Mr Quek attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2009.

Mr Quek is also a Director of HLB and HLGC, both companies listed on the Main Market of Bursa Securities and HLA, a public company.

#### ■ YBHG DATO' HAJI KAMARULZAMAN BIN MOHAMMED

Non-Executive Director/Independent

YBhg Dato' Haji Kamarulzaman bin Mohammed, aged 79, a Malaysian, holds a Certificate in Public Administration from the University of Manchester, United Kingdom. He was with the Government service from 1952 – 1975 serving as Special Secretary in Parliament from 1972 to 1974 and Deputy Secretary-General in the Ministry of Health from 1974 to 1975. From 1976 to 1985, he was the Deputy Managing Director of Asiavest Merchant and Discount House.

YBhg Dato' was appointed to the Board of HLFG on 1 May 1981 and is a member of the Board Audit and Risk Management Committee ("BARMC"), Remuneration Committee ("RC") and NC of HLFG.

YBhg Dato' attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2009.

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

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**■ YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN**

Non-Executive Director/Independent

YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, aged 73, a Malaysian, was educated in England and was called to the English Bar at Middle Temple in 1964. He is a Consultant in a legal firm in Penang in which he was a Senior Partner from 1969 till June 2008. He is the Chairman of the Advocates and Solicitors Disciplinary Board. He was in the Penang State Executive Council from 1974 to 1982 and has served on various statutory boards.

YBhg Tan Sri Khalid was appointed to the Board of HLFG on 1 July 1982. YBhg Tan Sri Khalid is also the Chairman of the BARMC, RC and NC of HLFG.

YBhg Tan Sri Khalid attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2009.

YBhg Tan Sri Khalid is also a Director of HLGC and the Senior Independent Board Member of IGB Corporation Berhad, both companies listed on the Main Market of Bursa Securities, and HLIB, a public company.

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**■ DR POH SOON SIM**

Non-Executive Director/Non-Independent

Dr Poh Soon Sim, aged 64, a Malaysian, graduated from the University of Singapore with a MBBS degree in 1971. Dr Poh is also a fellow of the Royal Society of Medicine, United Kingdom. Dr Poh has been in private medical practice since 1972.

Dr Poh was appointed to the Board of HLFG on 31 January 1991 and is a member of the BARMC, RC and NC of HLFG.

Dr Poh attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2009.

Dr Poh is a Director of DNP Holdings Berhad, a company listed on the Main Market of Bursa Securities. Dr Poh is also a Director of Hong Leong Company (Malaysia) Berhad and Hong Leong Foundation, both public companies.

## ■ YBHG GENERAL (RTD) TAN SRI (DR) MOHAMED HASHIM BIN MOHD ALI

Non-Executive Director/Independent

YBhg General (Rtd) Tan Sri (Dr) Mohamed Hashim bin Mohd Ali, aged 74, a Malaysian, attended the Harvard Business School Advance Management Programme Course in 1991 where he obtained a Diploma in Advance Management prior to his retirement from the Malaysian Armed Forces in 1992. He joined the Malaysian Armed Forces in 1953 and was first commissioned in the Royal Malay Regiment in 1956 after attending a series of Military Officer Cadet Courses both in Malaysia and overseas, particularly the Royal Military Academy in Sandhurst, England. He served in the Malaysian Armed Forces for 38 years and 9 months before retiring in April 1992 as the Chief of the Defence Forces. During his term in the Malaysian Armed Forces, he had initiated the re-organisation and modernisation of the Army. In May 1992, he joined Perwira Niaga Malaysia (PERNAMA) as Chairman, a company that serves the Malaysian Armed Forces. In January 1999, YBhg Gen (Rtd) Tan Sri was conferred the Honorary Doctorate by the University of Salford, United Kingdom. He was elected as a member of The Selangor Royal Court (Ahli Dewan DiRaja Selangor) on 1 January 2005.

YBhg Gen (Rtd) Tan Sri was appointed to the Board of HLFG on 8 June 1992 and is a member of NC of HLFG.

YBhg Gen (Rtd) Tan Sri attended three out of the four Board Meetings of HLFG held during the financial year ended 30 June 2009.

YBhg Gen (Rtd) Tan Sri is also the Non-Executive Chairman of Country Heights Holdings Berhad, Ajinomoto (Malaysia) Berhad, Delloyd Ventures Berhad, companies listed on the Main Market of Bursa Securities, and Mines Resort Berhad, a public company.

## ■ MS YVONNE CHIA

Non-Executive Director/Non-Independent

Aged 56, Ms Yvonne Chia, a Malaysian, holds a Bachelor of Economics (Second Class Upper Honours) from the University of Malaya. An international banker, Ms Chia started her career with the Bank of America and held various positions in Hong Kong, Manila and Kuala Lumpur between 1976 to 1993; the last position being Vice-President and Country Head of Marketing. In March 1994, Ms Chia joined RHB Bank Berhad as General Manager and went on to become Chief Executive Officer/Managing Director of RHB Bank Berhad, a position she held until March 2002. Ms Chia was made a Fellow of Institute of Bankers Malaysia in April 2002 and also a Certified Risk Professional (CRP) with BAI. In August 2005, Ms Chia was appointed to Wharton Fellows of the University of Pennsylvania.

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

Ms Chia attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2009.

Ms Chia is also the Group Managing Director/Chief Executive of HLB, a company listed on the Main Market of Bursa Securities. Ms Chia is also a Director of Cagamas Holdings Berhad, HLISB and HLTMT, all public companies.

### Notes:

#### 1. Family Relationship with Director and/or Major Shareholder

Tan Sri Quek Leng Chan and Mr Quek Leng Chye, a deemed major shareholder of HLFG, are brothers. Tan Sri Quek Leng Chan is the father of Mr Quek Kon Sean. Save as disclosed herein, none of the Directors has any family relationship with any other director and/or major shareholder of HLFG.

#### 2. Conflict of Interest

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

#### 3. Conviction of Offences

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

## Board Audit & Risk Management Committee Report



### CONSTITUTION

The Board Audit Committee of Hong Leong Financial Group Berhad (“HLFG” or “the Company”) has been established since 23 March 1994 and has been re-designated as the Board Audit & Risk Management Committee (“the BARMC”) on 29 August 2001.

### COMPOSITION

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

YBhg Dato’ Haji Kamarulzaman bin Mohammed  
(Independent Non-Executive Director)

Dr Poh Soon Sim  
(Non-Independent Non-Executive Director)

### SECRETARY

The Company Secretary shall be the Secretary to the BARMC.

### TERMS OF REFERENCE

- To nominate and recommend for the approval of the Board of Directors (“Board”), a person or persons as external auditors(s).
- To review the external audit fees.
- To review, with the external auditors, the audit scope and plan.
- To review, with the external auditors, the audit report and audit findings and the management’s response thereto.
- To review the assistance given by the officers of HLFG and its subsidiaries (“the Group”) to the external auditors.
- To review the quarterly reports and annual financial statements of the Company and of the Group prior to the approval by the Board.
- To review the adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit functions.
- To review the report and findings of the internal audit department including any findings of internal investigation and the management’s response thereto.
- To review the adequacy and integrity of internal control systems, including risk management and management information system.

- To review and monitor the business and financial risks facing the Group and to ensure that all high impact risks are adequately managed at various levels within the Group.
- To review any related party transactions that might arise within the Company or the Group.
- Other functions as may be agreed to by the BARMC and the Board.

## AUTHORITY

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

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

## MEETINGS

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

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

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

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

## ACTIVITIES

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

During the financial year ended 30 June 2009, four (4) BARMC meetings were held and the attendance of the BARMC members was as follows:-

Members	Attendance
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	4/4
YBhg Dato' Haji Kamarulzaman bin Mohammed	4/4
Dr Poh Soon Sim	4/4

The Committee also had two (2) separate sessions with the external auditors without the presence of executive directors and management.

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

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

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



**INTERNAL AUDIT**

The Group's Internal Audit function is carried out by the Group Internal Audit Division.

During the financial year ended 30 June 2009, the Group Internal Audit Division carried out its duties covering business audit, system and financial audit.

The cost incurred for the Internal Audit function in respect of the financial year ended 30 June 2009 was RM5.386 million.

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



# Corporate Governance & Internal Control

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

~ Finance Committee on Corporate Governance

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

## **A. DIRECTORS**

### **I The Board**

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

The role and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group’s businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia (“BNM”) as specified in guidelines and circulars issued by BNM, from time to time.

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

### **II Board Balance**

The Board comprises eight (8) directors, six (6) of whom are non-executive. Of the non-executive directors, three (3) are independent. The profiles of the members of the Board are provided in the Annual Report.

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

The Chairman ensures the smooth functioning of the Board. The President & Chief Executive Officer (“CEO”) is responsible for the vision and strategic direction of the Group as well as to monitor progress on implementation of Key Performance Areas (“KPA”) and strategic developments.

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

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

### **III Board Meetings**

The Board met four (4) times during the financial year ended 30 June 2009 with timely notices of issues to be discussed. Details of attendance of each director are disclosed in the Directors’ Profile in the Annual Report. At the Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meetings.

### **IV Supply of Information**

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

All directors have access to the advice and services of the Company Secretary and Internal Auditors. All directors also have access to independent professional advice at the Company’s expense on specific issues, in consultation with the Chairman or the CEO of the Company.

### **V Appointments to the Board**

The Nominating Committee was established on 30 October 2008 and the members are as follows:-

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

YBhg Tan Sri Quek Leng Chan  
(Non-Independent Non-Executive Director)

YBhg Dato’ Haji Kamarulzaman Bin Mohammed  
(Independent Non-Executive Director)

Dr Poh Soon Sim  
(Non-Independent Non-Executive Director)

YBhg General (Rtd) Tan Sri (Dr) Mohamed Hashim Bin Mohd Ali  
(Independent Non-Executive Director)

The Nominating Committee’s functions and responsibilities are set out in the terms of reference as follows:-

- ◆ Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.

- ◆ Review and recommend to the Board all Board appointments and re-appointments and removals including of the Chief Executive Officer.
- ◆ Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required.
- ◆ Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual director to the effectiveness of the Board and various Board committees based on criteria approved by the Board.
- ◆ Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- ◆ Ensure that the Board receives an appropriate continuous training programme.

The Nominating Committee reviews the membership of the Board, the professional qualifications and experience of the directors and the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills. The Nominating Committee also reviews the performance of the Board against its terms of reference.

## **VI Re-appointment and Re-election**

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

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

## **VII Training and Education**

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

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

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

During the financial year ended 30 June 2009, the Directors received regular briefings and updates on the Group’s businesses, operations, risk management, internal controls, corporate governance, finance and any new or changes to the companies and other relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programmes for its directors and senior management.

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

During the financial year ended 30 June 2009, the Directors of the Company, attended the following training programmes, seminars, briefings and workshops:-

- ◆ Financial Institutions Directors’ Education Programme
- ◆ Mergers and Acquisitions - Doing Better Deals
- ◆ Main Market Listing Requirements of Bursa Malaysia Securities Berhad
- ◆ FTSE Bursa Malaysia - Elevating Malaysia’s Benchmark Index to Global Standards
- ◆ Bursa Malaysia on Corporate Governance Programme.

## B. DIRECTORS' REMUNERATION

### I Level and Make-Up of Remuneration

The Remuneration Committee was established on 30 October 2008 and the members are as follows:-

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

YBhg Dato' Haji Kamarulzaman Bin Mohammed  
(Independent Non-Executive Director)

Dr Poh Soon Sim  
(Non-Independent Non-Executive Director)

The Remuneration Committee's functions and responsibilities are set out in the terms of reference as follows:

- i) Recommend to the Board the framework governing the remuneration of the:
  - ♦ Directors;
  - ♦ Chief Executive Officer; and
  - ♦ key senior management officers.
- ii) Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- iii) Review the remuneration package of key senior management officers.

During the financial year ended 30 June 2009, one (1) Remuneration Committee meeting was held and the meetings were attended by all the members.

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

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

### II Procedure

The Remuneration Committee in assessing and reviewing the remuneration packages of executive directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices.

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

### III Disclosure

The aggregate remuneration of directors (including remuneration earned as directors of subsidiaries) for the financial year ended 30 June 2009 is as follows:

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	407,562	3,516,920	3,924,482
Non-Executive Directors	805,990	4,882,693	5,688,682

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

Range Of Remuneration (RM)	Executive	Non-Executive
50,001 – 100,000	-	2
100,001 – 150,000	-	1
250,001 – 300,000	-	1
400,001 – 450,000	-	1
700,001 – 750,000	1	-
2,000,001 – 2,050,000	-	1
2,700,001 – 2,750,000	-	1
3,000,001 – 3,050,000	1	-

## C. SHAREHOLDERS

### I Dialogue between Companies and Investors

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

The Company has a website at [www.hlfq.com.my](http://www.hlfq.com.my) which the shareholders can access for corporate information which includes announcements made to Bursa Malaysia Securities Berhad by the Company.

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

Queries may be conveyed to the Chief Financial Officer. The contact details are as follows:-

Tel No : 03-2164 8228  
 Fax No : 03-2715 8988  
 e-mail address : [cfo-hlfq@hongleong.com.my](mailto:cfo-hlfq@hongleong.com.my)

### II AGM

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

## D. ACCOUNTABILITY AND AUDIT

The Board Audit Committee was established on 23 March 1994 and had been re-designated as the BARMC on 29 August 2001. The financial reporting and internal control system of the Group is overseen by the BARMC, which comprises three (3) Non-Executive Directors. The primary responsibilities of the BARMC are set out in the BARMC Report.

The BARMC met four (4) times during the financial year ended 30 June 2009. The attendance of the members are set out in the BARMC Report. The Chief Financial Officer, Head of internal audit, head of compliance, the risk manager and the CEO may attend Committee meetings, on the invitation of the Committee, to provide information and clarification required on items on the agenda. Representatives of the external auditors are also invited to attend the Committee meetings to present their audit scope and plan, audit report and findings together with management's response thereto, and to brief the Committee members on significant audit and accounting areas which they noted in the course of their audit.

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

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

#### **I Financial Reporting**

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

#### **II Internal Control**

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

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

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

#### **III Relationship with Auditors**

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

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

The external auditors meet with the BARMC members at least twice a year without the presence of executive directors and management.

### **E. STATEMENT ON INTERNAL CONTROL**

#### **I The responsibility of the Board**

The Board of Directors recognises its responsibilities for the system of internal controls of the Group and for reviewing its adequacy and integrity. Accordingly, the Board has established and maintained a Risk Management Framework appropriate to the operations of the Group, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The controls built into the Risk Management Framework of the Group are designed to ensure that all relevant and significant risks are identified and managed as part of the risk management process and are not intended to eliminate all risks of failure to achieve business objectives. It only provides a reasonable and not absolute assurance against material misstatements, losses or frauds that may affect the Group's financial position or its operations.

## II The Risk Management Framework

The Risk Management Framework established by the Board is to assist it in:

- identifying the significant risks faced by the Group in the operating environment, as well as evaluating the impact of such risks;
- developing and approving the necessary measures to manage these risks; and
- monitoring the effectiveness of such measures and to develop, approve and monitor any corrective actions as may be deemed necessary.

These processes have been in place throughout the financial year ended 30 June 2009 and have continued up to the date this statement was approved.

The Board has entrusted the BARMC with the responsibility to oversee the implementation of the Risk Management Framework of the Group.

A Chief Risk Officer administers the Risk Management Framework of the Group. The primary responsibilities of the Chief Risk Officer are:

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

In discharging the above responsibilities, the Chief Risk Officer is guided by but not limited to the questions raised in the Appendix to the *Statement on Internal Control - Guidance for Directors of Public Listed Companies*.

## III Internal Control Review and Regulatory Compliance Procedures

The Internal Audit Department, under the direction of the BARMC, provides the BARMC and the Board the assurance it requires regarding the adequacy and integrity of the system of internal controls.

The Internal Audit Department undertakes periodic and systematic reviews of internal control systems and the review of compliance with the business objectives, policies, reporting standards and control procedures of the Group. This is to provide reasonable assurance to the Board on the proper functioning of the Risk Management Framework.

The Group's Compliance Officers monitor daily operations of licensed subsidiaries to ensure compliance with regulatory requirements and internal policies. All breaches and exceptions are brought to the attention of the BARMC and the BARMC is kept informed of the causes and the remedial measures taken.



#### **IV Management and Decision-Making Processes**

The Board has incorporated the Risk Management Framework as an integral component in the management and decision-making process of the Group.

The vision and mission statements of the Group form the basis of medium-term business plans and budgets. The key strategies to achieve these business plans and budgets are approved by the Board. The management performs monthly review to monitor the performance of all operating units against the business plans and budgets. The budget is monitored and major variances are followed-up by the management. These are then reported to the Board on a quarterly basis.

The Company's financial system records business transactions to produce quarterly reports that allow management to focus on key areas of concern. The public release of quarterly financial reporting of the Group will only be made after being reviewed by the BARMC and approved by the Board.

The Group has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The respective heads of the operating subsidiaries of the Group operate their respective units within the policies, functional, financial and operating reporting standards and control procedures developed by the Group. Such reporting standards and control procedures are supplemented by operating procedures developed by the operating units to suit the regulatory and business environment, in which they operate.

The Group has identified the major risks that has significant impact on its operations, namely; credit risk, market risk, settlement risk, operational risk, and legal and compliance risk. Action plans are developed at each operating unit to manage and monitor these risks. Where feasible and necessary, relevant group resources are focused to manage and monitor common risks on an integrated and Group-wide basis, using common tools, procedures and control systems as appropriate.

#### **F. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING**

The Main Market Listing Requirements of Bursa Malaysia Securities Berhad requires the Directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the Company as at the end of financial year and of its financial performance and cash flow of the Group and of the Company for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group and of the Company for the financial year ended 30 June 2009, the Group has used the appropriate accounting policies and applied them consistently. The Directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

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

## Directors' Report

for the financial year ended 30 June 2009

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2009.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are those of investment holding and provision of services to its subsidiaries to enhance group value.

The Hong Leong Financial Group (the Company and its subsidiaries) is a diversified financial group whose businesses provide a broad range of financial products and services to consumer, corporate and institutional customers.

The principal activities of the significant subsidiaries consist of commercial banking business, Islamic Banking services, insurance business, investment banking and managing family takaful including investment-linked business as disclosed in Note 11 to the financial statements.

There have been no significant changes in the principal activities of the Group and its subsidiary companies during the financial year.

### FINANCIAL RESULTS

	The Group RM'000	The Company RM'000
Net profit after taxation and zakat:		
Equity holders of the Company	632,020	199,678
Minority interests	330,307	-
	962,327	199,678

### DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since the previous financial year ended 30 June 2008 were as follows:

- (a) A first interim dividend of 9 sen per share less income tax at 25%, amounting to RM70,085,680 in respect of the financial year ended 30 June 2009, was paid on 18 December 2008.
- (b) A second interim dividend of 14 sen per share less income tax at 25%, amounting to RM109,022,169 in respect of the financial year ended 30 June 2009, was paid on 26 June 2009.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2009.

### SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 49 to the financial statements.

### SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

Significant events subsequent to the balance sheet date are disclosed in Note 50 to the financial statements.

### RESERVES AND PROVISIONS

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

## Directors' Report for the financial year ended 30 June 2009

### DIRECTORS

The Directors who have held office since the date of the last report and at the date of this report are as follows:

YBhg Tan Sri Quek Leng Chan	(Chairman, Non-Independent)
Mr Choong Yee How	(President & Chief Executive Officer, Non-Independent)
Mr Quek Kon Sean	(Executive Director, Non-Independent)
YBhg Dato' Haji Kamarulzaman bin Mohammed	(Independent Non-Executive Director)
YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman	(Independent Non-Executive Director)
Dr Poh Soon Sim	(Non-Independent Non-Executive Director)
YBhg General (Rtd) Tan Sri (Dr) Mohamed Hashim bin Mohd Ali	(Independent Non-Executive Director)
Ms Yvonne Chia	(Non-Independent Non-Executive Director)
Mr Charlie Espinola Oropeza (Resigned on 1 June 2009)	(Non-Independent Non-Executive Director)

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

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

### DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, the Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares/options/convertible bonds in the Company and/or related corporations during the financial year are as follows:

	Nominal value per share RM	Shareholdings in which Directors have direct interests Number of ordinary shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds			As at 30.6.2009
		As at 1.7.2008	Acquired	Sold	
<b>Interests of YBhg Tan Sri Quek Leng Chan in:</b>					
Hong Leong Company (Malaysia) Berhad	1.00	390,000	-	-	390,000
Guoco Group Limited	USD 0.50	1,656,325	-	-	1,656,325
GuocoLand Limited	∞	20,062,965	-	-	20,062,965
Hong Leong Financial Group Berhad	1.00	4,989,600	-	-	4,989,600
Hume Industries (Malaysia) Berhad	1.00	2,000,000	-	-	2,000,000
Narra Industries Berhad	1.00	8,150,200	-	-	8,150,200
GuocoLand (Malaysia) Berhad	0.50	4,476,280	15,030,500	-	19,506,780
GuocoLeisure Limited ("GL")	USD 0.20	150,000	585,000	-	735,000

**Directors' Report**  
for the financial year ended 30 June 2009

**DIRECTORS' INTERESTS** *cont'd*

Shareholdings in which Directors have direct interests					
Number of ordinary shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds					
	Nominal value per share RM	As at 1.7.2008	Acquired	Sold	As at 30.6.2009
<b>Interests of YBhg Dato' Haji Kamarulzaman bin Mohammed in:</b>					
Hong Leong Financial Group Berhad	1.00	52,200	-	-	52,200
Hong Leong Bank Berhad	1.00	479,000	-	-	479,000
<b>Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:</b>					
Hong Leong Financial Group Berhad	1.00	5,544,000	-	-	5,544,000
Hong Leong Industries Berhad	0.50	52,800	-	-	52,800
Hong Leong Bank Berhad	1.00	400,000	-	-	400,000
Hume Industries (Malaysia) Berhad	1.00	167	-	-	167
Malaysian Pacific Industries Berhad	0.50	1,000	-	-	1,000
<b>Interests of Dr Poh Soon Sim in:</b>					
Hong Leong Financial Group Berhad	1.00	3,234,000	-	-	3,234,000
Narra Industries Berhad	1.00	1,058,700	57,200	-	1,115,900
GuocoLand (Malaysia) Berhad	0.50	345,580	10,000,000	907,700	9,437,880
HLG Capital Berhad	1.00	1,000	-	-	1,000
Hong Leong Industries Berhad	0.50	1,079,700	21,000	-	1,100,700
Malaysian Pacific Industries Berhad	0.50	248,700	500,000	-	748,700
Hume Industries (Malaysia) Berhad	1.00	6,200	66,000	-	72,200
<b>Interests of YBhg General (Rtd) Tan Sri (Dr) Mohamed Hashim bin Mohd Ali in:</b>					
Hong Leong Bank Berhad	1.00	459,282	-	-	459,282
Hong Leong Financial Group Berhad	1.00	4,200	-	-	4,200
GuocoLand (Malaysia) Berhad	0.50	1,260	-	1,260	-

**Directors' Report**  
for the financial year ended 30 June 2009

**DIRECTORS' INTERESTS** *cont'd*

Shareholdings in which Directors have direct interests  
Number of ordinary shares/\*shares issued or to be issued or acquired arising from the  
exercise of options/convertible bonds

	Nominal value per share RM	As at 1.7.2008	Acquired	Sold	As at 30.6.2009
<b>Interests of Ms Yvonne Chia in:</b>					
Hong Leong Bank Berhad	1.00	100,000	-	-	100,000
	1.00	6,800,000**	-	-	6,800,000**
GuocoLand (Malaysia) Berhad	0.50	10,000	-	-	10,000
Hong Leong Financial Group Berhad	1.00	10,000	-	-	10,000
<b>Interest of Mr Choong Yee How in:</b>					
Hong Leong Financial Group Berhad	1.00	8,000,000***	-	-	8,000,000***
<b>Interest of Mr Quek Kon Sean in:</b>					
Hong Leong Financial Group Berhad	1.00	2,500,000***	-	-	2,500,000***

Shareholdings in which Directors have indirect interests  
Number of ordinary shares/\*shares issued or to be issued or acquired arising from the  
exercise of options/convertible bonds

	Nominal value per share RM	As at 1.7.2008	Acquired	Sold	As at 30.6.2009
<b>Interests of YBhg Tan Sri Quek Leng Chan in:</b>					
Hong Leong Company (Malaysia) Berhad	1.00	7,487,100	-	-	7,487,100
Hong Leong Fund Management Sdn Bhd	1.00	1,400,000	-	-	1,400,000
Guoco Group Limited	USD 0.50	219,839,529	15,359,000	-	235,198,529
GuocoLand Limited ("GLL")	∞	570,958,320	8,066,000	-	579,024,320
		726,348*	20,246,945*	-	20,973,293*
First Garden Development Pte Ltd	∞	72,000,000	-	9,000,000##	63,000,000
Melville Park Development Pte Ltd (In Members' Voluntary Liquidation)	∞	57,840,000	-	57,840,000###	-
Sanctuary Land Pte Ltd	∞	54,000,000	-	53,910,000##	90,000
Beijing Minghua Property Development Co., Ltd (In Members' Voluntary Liquidation)	^	150,000,000	-	-	150,000,000

Directors' Report  
for the financial year ended 30 June 2009

**DIRECTORS' INTERESTS** *cont'd*

	Nominal value per share RM	Shareholdings in which Directors have indirect interests Number of ordinary shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds				As at 30.6.2009
		As at 1.7.2008	Acquired	Sold		
<b>Interests of YBhg Tan Sri Quek Leng Chan in: <i>cont'd</i></b>						
Shanghai Xinhaozhong Property Development Co., Ltd	#	19,600,000	-	-	19,600,000	
Beijing Jiang Sheng Property Development Co., Ltd	^	247,600,000	-	-	247,600,000	
Nanjing Xinhaoning Property Development Co., Ltd	#	11,800,800	-	-	11,800,800	
Nanjing Xinhaoxuan Property Development Co. Ltd	#	11,800,800	-	-	11,800,800	
Beijing Cheng Jian Dong Hua Real Estate Development Company Limited	^	50,000,000	-	-	50,000,000	
Nanjing Mahui Property Development Co., Ltd	^	271,499,800	-	-	271,499,800	
Lam Soon (Hong Kong) Limited	HKD 1.00	140,008,659	-	-	140,008,659	
Kwok Wah Hong Flour Company Limited	HKD 100.00	9,800	-	-	9,800	
M.C. Packaging Offshore Limited	HKD 0.01	812,695	-	-	812,695	
GuocoLand (Malaysia) Berhad	0.50	456,555,616	10,000,000 @@	-	466,555,616 @@@	
Guoman Hotel & Resort Holdings Sdn Bhd	1.00	277,000,000	-	-	277,000,000	
JB Parade Sdn Bhd	1.00	18,000,000	10,000,000	-	28,000,000	
	0.01	68,594,000	-	-	68,594,000	
		(Redeemable Preference Shares)			(Redeemable Preference Shares)	
GuocoLeisure Limited ("GL")	USD 0.20	839,709,108	232,766,375 ◇	304,806,272 ~	767,669,211	
Bondway Properties Limited (In Members' Voluntary Liquidation)	GBP 1.00	1,134,215	-	-	1,134,215	
		Ordinary- Voting Shares			Ordinary- Voting Shares	
	GBP 1.00	10,332	-	-	10,332	
		Ordinary-Non Voting Shares			Ordinary-Non Voting Shares	

Directors' Report  
for the financial year ended 30 June 2009

**DIRECTORS' INTERESTS** *cont'd*

	Nominal value per share RM	Shareholdings in which Directors have indirect interests Number of ordinary shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds			
		As at 1.7.2008	Acquired	Sold	As at 30.6.2009
<b>Interests of YBhg Tan Sri Quek Leng Chan in:</b> <i>cont'd</i>					
Guangzhou Lam Soon Food Products Limited	Ω	6,570,000	-	-	6,570,000
Shekou Lam Soon Silo Company Limited	#	8,464,500	1,035,500	-	9,500,000####
Hong Leong Financial Group Berhad	1.00	824,437,300	-	-	824,437,300
HLG Capital Berhad	1.00	92,590,545	-	-	92,590,545
Hong Leong Bank Berhad	1.00	961,690,100	4,055,000	-	965,745,100
Hong Leong Tokio Marine Takaful Berhad	1.00	65,000,000	-	-	65,000,000
Hong Leong Industries Berhad	0.50	184,899,737	10,513,300@@@	-	195,413,037@@@
Hong Leong Yamaha Motor Sdn Bhd	1.00	17,352,872	-	-	17,352,872
Guocera Tile Industries (Meru) Sdn Bhd	1.00	19,600,000	-	-	19,600,000
Hong Leong Maruken Sdn Bhd (In members' voluntary liquidation)	1.00	1,750,000	-	-	1,750,000
Guocera Tile Industries (Labuan) Sdn Bhd	1.00	6,545,001	-	-	6,545,001
Varinet Sdn Bhd (In members' voluntary liquidation)	1.00	10,560,627	-	-	10,560,627
RZA Logistics Sdn Bhd	1.00	7,815,980	118,267	-	7,934,247
Malaysian Pacific Industries Berhad	0.50	127,683,309	-	-	127,683,309
Carter Realty Sdn Bhd	1.00	7	-	-	7
Carsem (M) Sdn Bhd	1.00	84,000,000	-	-	84,000,000
	100.00	22,400	-	-	22,400
		(Redeemable preference shares)			(Redeemable preference shares)
Hume Industries (Malaysia) Berhad	1.00	120,208,928	1,692,101	19,401	121,881,628
Narra Industries Berhad	1.00	38,314,000	-	-	38,314,000
Adjuvant Resources Berhad (formerly known as Camerlin Group Berhad) ("ARB")	0.01	286,874,078	-	3,133,500 <sup>Δ</sup>	283,740,578####

**Directors' Report**  
for the financial year ended 30 June 2009

**DIRECTORS' INTERESTS** *cont'd*

	Nominal value per share RM	Shareholdings in which Directors have indirect interests Number of ordinary shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds			
		As at 1.7.2008	Acquired	Sold	As at 30.6.2009
<b>Interests of Dr Poh Soon Sim in:</b>					
Hong Leong Financial Group Berhad	1.00	878,810	-	-	878,810
		-	4,004,800 <sup>‡</sup>	-	4,004,800 <sup>‡</sup>
Hong Leong Company (Malaysia) Berhad	1.00	207,750	-	-	207,750
Hong Leong Industries Berhad	0.50	26,000	-	-	26,000
			39,100 <sup>‡</sup>		39,100 <sup>‡</sup>
Hong Leong Bank Berhad	1.00	88,000	-	-	88,000
		50,000 <sup>‡</sup>	-	-	50,000 <sup>‡</sup>
GuocoLand (Malaysia) Berhad	0.50	262,843	-	-	262,843
		-	4,750,000 <sup>‡</sup>	196,300 <sup>‡</sup>	4,553,700 <sup>‡</sup>
Hume Industries Malaysia Berhad	1.00	-	318,600 <sup>‡</sup>	-	318,600 <sup>‡</sup>
<b>Interests of YBhg Tan Sri Khalid Ahmad bin Sulaiman in:</b>					
Hong Leong Financial Group Berhad	1.00	3,600 <sup>‡</sup>	-	-	3,600 <sup>‡</sup>
HLG Capital Berhad	1.00	100,000 <sup>‡</sup>	-	-	100,000 <sup>‡</sup>
<b>Interest of YBhg Dato' Haji Kamarulzaman bin Mohammed in:</b>					
Hong Leong Financial Group Berhad	1.00	43,200 <sup>‡</sup>	-	-	43,200 <sup>‡</sup>
<b>Interest of Mr Quek Kon Sean in:</b>					
Hong Leong Industries Berhad	0.50	-	750,000	-	750,000

Notes:

- ∞ Concept of par value was abolished with effect from 30 January 2006 pursuant to the Singapore Companies (Amendment) Act, 2005
- ^ Capital contribution in RMB
- # Capital contribution in USD
- Ω Capital contribution in HKD
- Δ Shares cancelled pursuant to the selective capital repayment exercise via capital reduction undertaken by ARB
- @@ Shares held by children who are not directors of the Company
- ◇ Inclusive of shares which are credited/transferred to a company in which YBhg Tan Sri Quek Leng Chan has interest pursuant to the capital distribution of shares of GL to the entitled shareholders of ARB via a reduction in the share capital and cancellation of ARB's share premium reserve ("Capital Distribution Exercise of ARB")
- ~ Inclusive of cessation of deemed interest held through ARB pursuant to the Capital Distribution Exercise of ARB



## Directors' Report for the financial year ended 30 June 2009

### DIRECTORS' INTERESTS *cont'd*

Notes: *cont'd*

- ## Shares cancelled via capital reduction
- ### Dissolved during the financial year
- #### Became a wholly-owned subsidiary during the financial year
- \*\* Shares to be purchased arising from the exercise of Executive Share Option Scheme of HLB
- \*\*\* Shares to be purchased arising from the exercise of Executive Share Option Scheme of HLFG
- ‡ Indirect interest through spouse and/or children pursuant to Section 134(12)(c) of the Companies Act, 1965
- @@@ Inclusive of shares held by children who are not directors of the Company

### DIRECTORS' BENEFITS

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

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Company is a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the share options granted pursuant to the Executive Share Option Scheme.

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

The Executive Share Option Scheme ("ESOS") of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company which was approved by the shareholders of the Company on 8 November 2005, was established on 23 January 2006 and would be in force for a period of ten (10) years.

On 18 January 2006, the Company announced that Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS at any time during the existence of the ESOS.

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

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

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

**Directors' Report**  
for the financial year ended 30 June 2009

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

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

Pursuant to this, a trust has been set up for the ESOS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust. In accordance with FRS 132, the shares purchased for the benefit of the ESOS holdings are recorded as "Treasury Shares for ESOS Scheme" in equity on the balance sheet. The cost of operating the ESOS scheme is charged to the income statement.

The trustee will manage the trust in accordance with the trust deed. Upon termination of the trust, the trustee will dispose all remaining trust shares, if any, and deal with any surplus or deficit of the trust in accordance with the instructions of the Company.

There were no options granted during the financial year.

**SHARE CAPITAL**

During the financial year, there was no issuance of new ordinary shares. As at 30 June 2009, the issued and paid-up share capital of the Company is RM1,052,767,789 comprising 1,052,767,789 ordinary shares of RM1.00 each.

**Other statutory information regarding the Group and the Company**

**(a) As at the end of the financial year**

- (i) Before the income statements and balance sheets of the Group and the Company were made out, the Directors took reasonable steps:
- to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts and financing; and
  - to ensure that any current assets, other than debts and financing, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (ii) In the opinion of the Directors, the results of the operations of the Group and the Company during the financial year had not been substantially affected by any item, transaction or event of a material and unusual nature, other than those disclosed in Note 49 to the financial statements.

**(b) From the end of the financial year to the date of this report**

- (i) The Directors are not aware of any circumstances:
- which would render the amount written off for bad debts and financing or the amount of the allowance for doubtful debts and financing in the financial statements of the Group and the Company, inadequate to any substantial extent;
  - which would render the values attributed to current assets in the financial statements of the Group and the Company misleading; and
  - which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and the Company misleading or inappropriate.
- (ii) In the opinion of the Directors:
- the results of the operations of the Group and the Company for the financial year ended 30 June 2009 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
  - no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Company to meet their obligations as and when they fall due.

**Directors' Report**  
for the financial year ended 30 June 2009

**SHARE CAPITAL** *cont'd*

**Other statutory information regarding the Group and the Company** *cont'd*

**(c) As at the date of this report**

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

**DISCLOSURE OF SHARIAH ADVISORY COMMITTEE**

The Group's Islamic banking and takaful business activities are subject to the Shariah compliance and confirmation by the Shariah Advisory Committee consisting of 5 scholars, at all times, appointed by the Board of Directors of Hong Leong Islamic Bank Berhad and Hong Leong Tokio Marine Takaful Berhad for a 2 year term.

The primary role of the Shariah Advisor is mainly advising on matters relating to the business operations and products of the Group and providing support by attending regular meetings with the Group to ensure that they are in conformity with Shariah principles.

**ULTIMATE HOLDING COMPANY**

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

**AUDITORS**

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 31 July 2009.

**Choong Yee How**  
*Director*

**Yvonne Chia**  
*Director*

Kuala Lumpur  
28 August 2009

## Balance Sheets

as at 30 June 2009

	Note	The Group		The Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>Assets</b>					
Cash and short term funds	2	19,500,176	23,456,160	2,791	11,699
Securities purchased under resale agreements		-	972,742	-	-
Deposits and placements with banks and other financial institutions	3	5,726,818	2,292,806	-	-
Securities held at fair value through profit or loss	4	7,092,273	4,877,785	18,950	-
Available-for-sale securities	5	7,079,776	8,439,846	-	-
Held-to-maturity securities	6	6,566,779	3,161,818	-	-
Loans, advances and financing	7	35,498,266	35,090,636	-	-
Clients' and brokers' balances	8	220,152	202,187	-	-
Other receivables	9	1,929,616	2,498,301	63,753	20,186
Statutory deposits with Bank Negara Malaysia	10	368,564	1,315,464	-	-
Tax recoverable		12,056	13,024	11,390	12,988
Investment in subsidiary companies	11	-	-	2,048,249	2,048,349
Investment in associated company	12	1,045,285	-	-	-
Deferred tax assets	13	215,179	172,671	-	-
Prepaid lease payments	14	10,123	9,117	-	-
Property and equipment	15	602,362	508,466	2,888	3,525
Investment properties	16	1,600	1,600	-	-
Goodwill arising on consolidation	17	572,265	536,135	-	-
Intangible assets	18	40,460	52,425	230	352
<b>Total assets</b>		<b>86,481,750</b>	<b>83,601,183</b>	<b>2,148,251</b>	<b>2,097,099</b>
<b>Liabilities</b>					
Deposits from customers	19	67,262,086	62,061,525	-	-
Deposits and placements of banks and other financial institutions	20	2,413,979	6,372,576	-	-
Bills and acceptances payable		251,386	411,183	-	-
Clients' and brokers' balances	22	279,029	233,817	-	-
Payables and other liabilities	23	3,268,607	2,781,927	6,391	10,279
Provision for claims		201,424	199,086	-	-
Provision for taxation		73,704	91,078	-	-
Borrowings	24	597,128	450,314	450,228	425,714
Subordinated obligations	25	729,566	671,750	-	-
Insurance funds	26	4,577,892	4,180,524	-	-
<b>Total liabilities</b>		<b>79,654,801</b>	<b>77,453,780</b>	<b>456,619</b>	<b>435,993</b>

**Balance Sheets**  
as at 30 June 2009

	Note	The Group		The Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	27	1,052,768	1,052,768	1,052,768	1,052,768
Reserves	28	3,595,447	3,128,268	704,614	679,598
Treasury shares for ESOS scheme	29	(78,171)	(73,176)	(65,750)	(71,260)
		4,570,044	4,107,860	1,691,632	1,661,106
<b>Minority interest</b>		2,256,905	2,039,543	-	-
<b>Total equity</b>		6,826,949	6,147,403	1,691,632	1,661,106
<b>Total equity and liabilities</b>		86,481,750	83,601,183	2,148,251	2,097,099
<b>Commitments and contingencies</b>	40	78,596,910	81,641,545	250,000	-

## Income Statements

for the financial year ended 30 June 2009

	Note	The Group		The Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Interest income	30	2,955,612	3,068,841	1,769	659
Interest expense	31	(1,592,345)	(1,687,530)	(18,319)	(18,403)
Net interest income/(expense)		1,363,267	1,381,311	(16,550)	(17,744)
Income from Islamic Banking Business	32	176,341	160,044	-	-
		1,539,608	1,541,355	(16,550)	(17,744)
Non-interest income	33	730,335	684,127	286,507	268,985
		2,269,943	2,225,482	269,957	251,241
Overhead expenses	34	(973,414)	(945,147)	(17,465)	(17,445)
Operating profit before allowances		1,296,529	1,280,335	252,492	233,796
Allowances for losses on loans, advances and financing and other losses	35	(155,250)	(158,217)	-	-
Impairment of goodwill	17	(57,236)	-	-	-
Allowance for impairment losses		(33,301)	(1,953)	-	-
		1,050,742	1,120,165	252,492	233,796
Share of results of associated company	12	99,462	-	-	-
<b>Profit before taxation and zakat</b>		<b>1,150,204</b>	<b>1,120,165</b>	<b>252,492</b>	<b>233,796</b>
Taxation and zakat	37	(187,877)	(293,833)	(52,814)	(54,421)
<b>Net profit for the financial year</b>		<b>962,327</b>	<b>826,332</b>	<b>199,678</b>	<b>179,375</b>
<b>Attributable to:</b>					
Equity holders of the Company		632,020	548,682	199,678	179,375
Minority interest		330,307	277,650	-	-
		962,327	826,332	199,678	179,375
<b>Earnings per share attributable to ordinary equity holders of the Company (sen)</b>					
- Basic/Fully diluted	38	61.0	52.9	19.2	17.3
<b>Dividend per share (net)*</b>	39	<b>17.3</b>	<b>17.1</b>	<b>17.3</b>	<b>17.1</b>

\* Dividends recognised as distributions to equity holders during the financial year.

## Statements of Changes in Equity

for the financial year ended 30 June 2009

The Group	Note	← Attributable to equity holders of the Company →											
		Share capital	Share premium	Treasury shares for ESOS scheme	Statutory reserve	Fair value reserve	Other capital reserve	Share options reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interest	Total Equity
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 July 2008</b>		1,052,768	117,229	(73,176)	1,099,947	(11,256)	133,258	8,481	12,721	1,767,888	4,107,860	2,039,543	6,147,403
Currency translation differences		-	-	-	-	-	-	-	7,692	-	7,692	-	7,692
Net fair value changes in available-for-sale securities, net of tax		-	-	-	-	(8,173)	-	-	-	-	(8,173)	-	(8,173)
Income and expense recognised directly in equity		-	-	-	-	(8,173)	-	-	7,692	-	(481)	-	(481)
Net profit for the financial year		-	-	-	-	-	-	-	-	632,020	632,020	330,307	962,327
Total recognised income and expense for the financial year		-	-	-	-	(8,173)	-	-	7,692	632,020	631,539	330,307	961,846
Transfer to statutory reserve		-	-	-	41,539	-	-	-	-	(41,539)	-	-	-
Purchase of shares for ESOS Scheme		-	-	(4,995)	-	-	-	-	-	-	(4,995)	-	(4,995)
Allocation of other reserves to minority interest		-	-	-	-	-	-	-	-	-	-	(112,945)	(112,945)
Dividends paid	39	-	-	-	-	-	-	-	-	(179,108)	(179,108)	-	(179,108)
Options charge arising from ESOS		-	-	-	-	-	-	14,748	-	-	14,748	-	14,748
<b>At 30 June 2009</b>		1,052,768	117,229	(78,171)	1,141,486	(19,429)	133,258	23,229	20,413	2,179,261	4,570,044	2,256,905	6,826,949

**Statements of Changes in Equity**  
for the financial year ended 30 June 2009

The Group	Note	← Attributable to equity holders of the Company →											Total Equity
		Share capital	Share premium	Treasury shares for ESOS scheme	Statutory reserve	Fair value reserve	Other capital reserve	Share options reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interest	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 July 2007		1,052,451	116,017	(67,666)	1,067,869	15,394	133,258	1,152	19,499	1,428,148	3,766,122	1,875,086	5,641,208
Currency translation differences		-	-	-	-	-	-	-	(6,778)	-	(6,778)	-	(6,778)
Net fair value changes in available-for-sale securities, net of tax		-	-	-	-	(26,650)	-	-	-	-	(26,650)	-	(26,650)
Income and expense recognised directly in equity		-	-	-	-	(26,650)	-	-	(6,778)	-	(33,428)	-	(33,428)
Net profit for the financial year		-	-	-	-	-	-	-	-	548,682	548,682	277,650	826,332
Total recognised income and expense for the financial year		-	-	-	-	(26,650)	-	-	(6,778)	548,682	515,254	277,650	792,904
Transfer to statutory reserve		-	-	-	32,078	-	-	-	-	(32,078)	-	-	-
Purchase of shares for ESOS Scheme		-	-	(5,510)	-	-	-	-	-	-	(5,510)	-	(5,510)
Issue of shares arising from the exercise of warrants 1997/2007		317	1,212	-	-	-	-	-	-	-	1,529	-	1,529
Allocation of other reserves to minority interest		-	-	-	-	-	-	-	-	-	-	(113,193)	(113,193)
Dividends paid	39	-	-	-	-	-	-	-	-	(176,864)	(176,864)	-	(176,864)
Options charge arising from ESOS		-	-	-	-	-	-	7,329	-	-	7,329	-	7,329
At 30 June 2008		1,052,768	117,229	(73,176)	1,099,947	(11,256)	133,258	8,481	12,721	1,767,888	4,107,860	2,039,543	6,147,403



Statements of Changes in Equity  
for the financial year ended 30 June 2009

The Company	Note	← Non-distributable →				Distributable		Total equity RM'000
		Share capital RM'000	Share premium RM'000	Treasury shares for ESOS scheme RM'000	Other capital reserve RM'000	Share options reserve RM'000	Retained profits RM'000	
<b>At 1 July 2008</b>		1,052,768	117,229	(71,260)	18,484	5,762	538,123	1,661,106
Net profit for the financial year		-	-	-	-	-	199,678	199,678
Purchase of shares for ESOS Scheme		-	-	(4,994)	-	-	-	(4,994)
Transfer of shares to HLA ESOS Trust		-	-	10,504	-	-	-	10,504
Dividends paid	39	-	-	-	-	-	(179,108)	(179,108)
Options charge arising from ESOS		-	-	-	-	4,446	-	4,446
<b>At 30 June 2009</b>		1,052,768	117,229	(65,750)	18,484	10,208	558,693	1,691,632
At 1 July 2007		1,052,451	116,017	(65,750)	18,484	1,152	535,612	1,657,966
Issue of shares arising from the exercise of warrants 1997/2007		317	1,212	-	-	-	-	1,529
Net profit for the financial year		-	-	-	-	-	179,375	179,375
Purchase of shares for ESOS Scheme		-	-	(5,510)	-	-	-	(5,510)
Dividends paid	39	-	-	-	-	-	(176,864)	(176,864)
Options charge arising from ESOS		-	-	-	-	4,610	-	4,610
<b>At 30 June 2008</b>		1,052,768	117,229	(71,260)	18,484	5,762	538,123	1,661,106

## Consolidated Cash Flow Statements

for the financial year ended 30 June 2009

	The Group	
	2009	2008
	RM'000	RM'000
<b>Cash flow from operating activities</b>		
Profit before taxation and zakat	1,150,204	1,120,165
Adjustments for:		
Unearned premium reserves	(38,261)	(7,115)
Life fund - underwriting surplus	492,629	198,877
Depreciation of property and equipment	51,460	56,165
Amortisation of prepaid lease payments	127	127
Amortisation of intangible assets	18,116	23,931
Gain on sale of property and equipment	(1,428)	(1,839)
Gain from redemption of held-to-maturity securities	(316)	(1,966)
Gain from disposal of available-for-sale securities	(28,505)	(15,166)
Gain from disposal of securities held at fair value through profit or loss	(4,264)	(17,725)
Net unrealised (gain)/loss on revaluation of securities held at fair value through profit or loss and derivative financial instruments	(15,210)	3,157
Net realised loss on fair value changes arising from fair value hedges	14,851	30,856
Net unrealised gain on fair value changes arising from fair value hedges	(15,858)	(7,883)
Impairment losses on available-for-sale securities	33,301	1,953
Allowances for losses on loans, advances and financing	268,087	236,965
Interest in suspense	14,903	8,457
Accretion of discount less amortisation of premium	(203,473)	(216,907)
Interest expense on borrowings	21,212	30,324
Interest expense on subordinated obligations	36,631	34,201
Interest income from securities held at fair value through profit or loss	(22,078)	(35,241)
Interest income from available-for-sale securities	(103,132)	(120,618)
Interest income from held-to-maturity securities	(145,010)	(35,982)
Dividend income from available-for-sale, held-to-maturity and held at fair value securities through profit or loss	(11,994)	(15,081)
Option charge arising from ESOS	14,748	7,329
Surplus transferred from life insurance business	(57,000)	(55,000)
Impairment of goodwill	57,236	-
Share of results of associated company	(99,462)	-
	277,310	101,819

**Consolidated Cash Flow Statements**  
for the financial year ended 30 June 2009

	Note	The Group	
		2009 RM'000	2008 RM'000
<b>Operating profit before working capital changes</b>		1,427,514	1,221,984
<b>(Increase)/decrease in operating assets</b>			
Deposits and placements with banks and other financial Institutions		(3,434,012)	6,997,953
Securities purchased under resale agreements		972,742	2,522,567
Securities held at fair value through profit or loss		(2,170,273)	(1,098,740)
Loan, advances and financing		(705,471)	(3,185,118)
Clients' and brokers' balances		(17,965)	205,209
Other receivables		567,902	(1,436,550)
Statutory deposits with Bank Negara Malaysia		946,900	(108,525)
<b>Increase/(decrease) in operating liabilities</b>			
Deposits from customers		5,200,561	5,965,559
Deposits and placements of banks and other financial institutions		(3,958,597)	1,258,956
Obligations on securities sold under repurchase agreements		-	(1,129,521)
Bills and acceptances payable		(159,797)	(155,068)
Payables and other liabilities		409,185	264,484
Provision for claims		2,338	29,375
Clients' and brokers' balances		45,212	-
		(2,301,275)	10,130,581
<b>Net cash (used in)/generated from operating activities</b>		(873,761)	11,352,565
Income tax paid		(269,862)	(337,757)
Interest received		234	534
		(269,628)	(337,223)
<b>Net cash flows (used in)/generated from operating activities</b>		(1,143,389)	11,015,342
<b>Cash flows from investing activities</b>			
Net proceeds/(purchases) of available-for-sale securities		1,381,084	(3,012,601)
Net purchases of held-to-maturity securities		(3,234,473)	(539,015)
Interest received on available-for-sale and held-to-maturity securities		248,142	156,600
Dividends received on available-for-sale, held-to maturity securities and held at fair value securities through profit or loss		6,998	15,081
Proceeds from disposal of property and equipment		3,633	11,051
Proceeds from disposal of prepaid lease payments		-	445
Proceeds from disposal of intangible assets		30	87
Purchase of property and equipment		(150,649)	(102,032)
Purchase of intangible assets – computer software		(10,679)	(14,847)
Purchase of treasury shares in company		(4,995)	(5,510)
Purchase of treasury shares in subsidiary company		(27,574)	(29,524)
Acquisition/disposal of subsidiaries	52	(75,777)	-
Investment in associated company		(904,821)	-
<b>Net cash flows used in investing activities</b>		(2,769,081)	(3,520,265)

**Consolidated Cash Flow Statements  
for the financial year ended 30 June 2009**

	Note	The Group	
		2009 RM'000	2008 RM'000
<b>Cash flows from financing activities</b>			
Interest paid on subordinated obligations		(35,546)	(34,999)
Interest paid on borrowings		(21,212)	(30,324)
Net proceeds from exercise of warrants 1997/2007		-	1,529
Repayment of revolving credit		-	(100,100)
(Repayment)/issuance of medium term notes and commercial papers		(5,486)	125,000
Proceeds from/(repayment of) syndicated loans		152,300	(509,850)
Dividends paid to			
- shareholders of the Company		(179,108)	(176,864)
- minority shareholders		(89,554)	(89,216)
<b>Net cash used in financing activities</b>		<b>(178,606)</b>	<b>(814,824)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,091,076)</b>	<b>6,680,253</b>
<b>Effects of exchange rate changes</b>		<b>65,508</b>	<b>(8,079)</b>
<b>Cash and cash equivalents at beginning of financial year</b>		<b>23,316,210</b>	<b>16,644,036</b>
<b>Cash and cash equivalents at end of financial year</b>		<b>19,290,642</b>	<b>23,316,210</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and short term funds	2	19,500,176	23,456,160
Less: Remisiers' and clients' trust monies		(209,534)	(139,950)
		<b>19,290,642</b>	<b>23,316,210</b>

## Company Cash Flow Statements

for the financial year ended 30 June 2009

	The Company	
	2009	2008
	RM'000	RM'000
<b>Cash flows from operating activities</b>		
Profit before taxation	252,492	233,796
Adjustments for:		
(Gain)/loss on sale of property and equipment	(51)	21
Net realised loss on sale of securities held at fair value through profit or loss	8,108	21
Net unrealised gain on revaluation of securities held at fair value through profit or loss	(6,317)	-
Gain on disposal of subsidiary	(1,720)	-
Depreciation of property and equipment	845	982
Amortisation of intangible assets	126	23
Interest expense	18,319	18,403
Interest income	(1,769)	(534)
Dividend income from securities held at fair value through profit or loss	(686)	(408)
Dividend income from subsidiary companies	(278,822)	(263,007)
Option charge arising from ESOS	4,446	4,610
	(257,521)	(239,889)
<b>Operating loss before working capital changes</b>	(5,029)	(6,093)
Increase in receivables	(43,798)	(11,203)
Securities held at fair value through profit or loss	(18,975)	-
Decrease in payables	(4,544)	(12,606)
	(67,317)	(23,809)
<b>Cash used in operations</b>	(72,346)	(29,902)
Income tax refund	7,615	6,996
Interest received	234	534
	7,849	7,530
<b>Net cash used in operating activities</b>	(64,497)	(22,372)
<b>Cash flows from investing activities</b>		
Dividend income from subsidiary companies	219,991	202,425
Dividends received on securities held at fair value through profit or loss	686	408
Proceeds from disposal of property and equipment	77	800
Purchase of property and equipment	(345)	(1,192)
Purchase of intangible assets – computer software	(4)	(355)
Transfer/(purchase) of treasury shares	5,510	(5,510)
Proceeds from disposal of subsidiary	1,820	-
<b>Net cash generated from investing activities</b>	227,735	196,576

**Company Cash Flow Statements**  
for the financial year ended 30 June 2009

	Note	The Company	
		2009 RM'000	2008 RM'000
<b>Cash flows from financing activities</b>			
Interest paid on borrowings		(17,552)	(18,646)
Drawdown/(repayment) of revolving credit		30,000	(110,000)
(Repayment)/Issuance of medium term notes and commercial papers		(5,486)	125,000
Net proceeds from exercise of warrants 1997/2007		-	1,529
Dividends paid to shareholders of the Company		(179,108)	(176,864)
<b>Net cash used in financing activities</b>		<b>(172,146)</b>	<b>(178,981)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(8,908)</b>	<b>(4,777)</b>
<b>Cash and cash equivalents at beginning of financial year</b>		<b>11,699</b>	<b>16,476</b>
<b>Cash and cash equivalents at end of financial year</b>		<b>2,791</b>	<b>11,699</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and short term funds	2	2,791	11,699

## Summary of Significant Accounting Policies

for the financial year ended 30 June 2009

The following accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements.

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Company have been prepared in accordance with the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia ("BNM") Guidelines and comply with provisions of the Companies Act, 1965. The financial statements incorporate the activities relating to the Islamic Banking and takaful businesses which have been undertaken by its' subsidiaries, Hong Leong Islamic Bank Berhad ("HLISB") and Hong Leong Tokio Marine Takaful Berhad ("HLTMT") in compliance with Shariah principles. Islamic Banking business refers generally to the acceptance of deposits and granting of financing under Shariah principles while takaful business refers generally to underwriting of Islamic insurance under the Shariah principles.

The preparation of financial statements in conformity with Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the management and Directors' best knowledge of current events and actions, actual results may differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 51.

#### (i) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company and are effective

There are no new accounting standards, amendments to published standards and interpretations to existing standards that are applicable and effective for the Group and the Company for the financial year ended 30 June 2009.

#### (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective

The new standards and IC Interpretation that are applicable to the Group and the Company, but which the Group and the Company will apply these standards when effective.

- FRS 8 "Operating Segments" (effective for annual period beginning on or after 1 July 2009). FRS 8 replaces FRS 114<sup>2004</sup> Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of FRS 8 will require additional disclosure requirements in the Group's financial statements. The Group will apply this standard when effective.

The following new standards and IC Interpretation will be effective for annual period beginning on or after 1 January 2010. The Group and the Company will apply these standards and IC Interpretations when effective.

- IC Interpretation 9 "Reassessment of Embedded Derivatives" requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The adoption of IC 9 does not have any significant financial impact on the results of the Group.
- IC Interpretation 10 "Interim Financial Reporting and Impairment" prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of IC 10 does not have any significant financial impact on the results of the Group.
- Amendments to FRS 2 "Share-based Payment: Vesting Conditions and Cancellations" clarify that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of Amendments to FRS 2 does not have any significant financial impact on the results of the Group and the Company.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *cont'd*

#### (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Company but not yet effective *cont'd*

- Amendments to FRS 1 - "First-time Adoption of Financial Reporting Standards" and FRS 127 - "Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The adoption of Amendments to FRS 1 does not have any significant financial impact on the results of the Group and the Company.
- IC Interpretation 11 - "FRS 2 Group and Treasury Share Transactions" provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and group companies. The adoption of IC 11 does not have any significant financial impact on the results of the Group and the Company.
- The Group and the Company have applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the standard on the financial statements of the Group and Company.
  - FRS 139 "Financial Instruments: Recognition and Measurement"
  - FRS 4 "Insurance Contracts"
  - FRS 7 "Financial Instruments: Disclosures"

### B ECONOMIC ENTITIES IN THE GROUP

#### (i) Subsidiaries

The Company treats as subsidiaries those corporations, partnerships or other entities (including special purpose entities) in which the Company has the power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than half of the voting rights.

Investment in subsidiaries is stated at cost less accumulated impairment losses. Where there is an indication of impairment, the carrying amount of the investment is assessed. A write down is made if the carrying amount exceeds its recoverable amount.

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to the end of the financial year.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Subsidiaries are consolidated using the purchase method of accounting, except for business combinations which were accounted for using merger accounting principles:

- subsidiaries that were consolidated prior to 1 July 2001 in accordance with Malaysian Accounting Standard 2 "Accounting for Acquisitions and Mergers", the generally accepted accounting principles prevailing at that time.
- business combinations consolidated on/after 1 July 2001 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS 122<sup>2004</sup> "Business Combinations".
- internal group reorganisations, as defined in FRS 122<sup>2004</sup>, consolidated on/after 1 July 2001 but with agreement dates before 1 January 2006 where:
  - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
  - the minorities' share of net assets of the Group is not altered by the transfer
- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.



## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### **B ECONOMIC ENTITIES IN THE GROUP *cont'd***

#### **(i) Subsidiaries *cont'd***

The Group has taken advantage of the exemption provided by FRS 122<sub>2004</sub> and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards.

Under the purchase method of accounting, the results of subsidiaries acquired or disposed of during the year are included from the date of acquisition up to the date of disposal. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Minority interest represent that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since that date.

All material transactions and balances between group companies are eliminated and the consolidated financial statements reflect external transactions only. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary is recognised in the consolidated income statement.

#### **(ii) Associates**

Associates are those corporations, partnerships or other entities in which the Group exercise significant influence, but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not the power to exercise control over those policies.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates include goodwill identified in acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

### **C GOODWILL**

Goodwill arises on business combinations when the cost of acquisition of subsidiaries, jointly controlled entities and associates exceeds the fair value of the Group's share of the identifiable net assets at the date of acquisition.

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### C GOODWILL *cont'd*

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment testing is performed annually by comparing the present value of the CGU's projected cash flows against the carrying amount of its net assets which include the allocated goodwill. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill on acquisition of associates are included in investment in associates. Such goodwill is tested for impairment as part of the overall balance.

### D PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses (if any). Freehold land and capital work-in-progress are not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use. Depreciation of other property and equipment is calculated to write off the cost of property and equipment to their residual values over the estimated useful lives, summarised as follows:

Buildings on leasehold land	Over the remaining period of the lease or 50 years whichever is shorter
Buildings on freehold land	50 years
Equipment, furniture and fittings	3-10 years
Renovations	5-10 years
Motor vehicles	4-5 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Property and equipment are reviewed for impairment at each balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in non-interest income.

### E INVESTMENT PROPERTIES

Investment properties are properties which are held for rentals or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs.

Investment properties are initially stated at cost and subsequently carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years. All gains or losses arising from a change in fair value of an investment property are recognised in the income statement.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

### F INTANGIBLE ASSETS

Intangible assets comprise of computer software. Intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software are amortised over their finite useful lives of 3 years.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### G LEASES

#### *Where the Group is the lessee*

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

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

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

#### *Where the Group is the lessor*

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

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

### H RESALE REPURCHASE AGREEMENTS

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

Conversely, obligations on securities sold under repurchase agreements are securities which the banking subsidiaries had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the securities are reflected as a liability on the balance sheet, except for those transacted under Islamic principles.

The difference between sale and repurchase price as well as purchase and resale price is treated as interest and accrued over the life of the resale/repurchase agreement using the effective yield method.

### I SECURITIES PORTFOLIO

The Group and the Company classify their securities portfolio into the following categories: securities held at fair value through profit or loss, available-for-sale securities and held-to-maturity securities. Management determines the classifications of its securities up-front at the point when transactions are entered into.

#### (i) **Securities held at fair value through profit or loss**

Securities held at fair value through profit or loss comprise securities held-for-trading ("HFT") and securities other than those held-for-trading but valued at fair value through profit or loss.

##### *Held-for-trading securities*

Held-for-trading securities ("HFT") are securities that are acquired and held principally for the purpose of selling in the short term.

Pursuant to the amendments to the revised BNM/GP8, the Group is now permitted by BNM for the period from 1 July 2008 to 31 December 2009 to reclassify non-derivatives held-for-trading securities into held-to-maturity securities or available-for-sale securities.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### I SECURITIES PORTFOLIO *cont'd*

#### (i) Securities held at fair value through profit or loss *cont'd*

Reclassifications are made at the fair value at the date of the reclassification. The fair values of the securities becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. The effective interest rates for the securities reclassified to held-to-maturity category is determined at the reclassification date. Further changes in estimates of future cash flows are recognised as an adjustment to the effective interest rates.

#### ***Securities other than held-for-trading designated at fair value***

Securities are classified as such if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

#### (ii) Held-to-maturity securities

Held-to-maturity securities are non-derivative instruments with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity. If the Group sell other than an insignificant amount of held-to-maturity securities, the entire category will be tainted and reclassified as available-for-sale securities.

#### (iii) Available-for-sale securities

Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Securities are initially recognised at fair value. Securities are derecognised when the rights to receive cash flows from the securities have expired or where the Group has transferred substantially all risks and rewards of ownership.

Securities held at fair value through profit or loss and available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the securities held for trading category are included in the income statement in the period which they arise. Gains and losses arising from changes in fair value of available-for-sale securities are recognised directly in equity, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in equity are recognised in the income statement. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Held-to-maturity securities are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from the derecognition or impairment of the securities are recognised in the income statement.

Interest from securities held at fair value through profit or loss, available-for-sale securities and held-to-maturity securities is calculated using the effective interest method and is recognised in the income statement. Dividends from available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted securities are based on quoted prices in active markets. If the market for an instrument is not active (and for unquoted securities), the Group establish fair value by using valuation techniques.

### J RECEIVABLES

Clients' and brokers' balances arising from share and stockbroking business are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values).

Other receivables are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values). An estimate is made for allowance for bad and doubtful debts based on the review of all outstanding amounts at the end of the financial year. Bad debts are written off during the financial year in which they are identified.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### **K FORECLOSED PROPERTIES**

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

### **L DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING**

Derivative financial instruments are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which variables include only data from observable markets. When such evidence exists, the banking subsidiaries recognise profits immediately.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The banking subsidiaries designated certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge) or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, the banking subsidiaries documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The banking subsidiaries also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

#### **(i) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

#### **(ii) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect income statement (for example, when the forecast sale is hedged takes place).

When hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### **(iii) Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in the equity are included in the income statement when the foreign operation is partially disposed or sold.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### **L DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *cont'd***

#### **(iv) Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

### **M BILLS AND ACCEPTANCES PAYABLE**

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

### **N PROVISIONS**

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

### **O BORROWINGS**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

### **P UNEARNED PREMIUM RESERVES**

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

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

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

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

### **Q UNEARNED CONTRIBUTION RESERVES**

Unearned contribution reserves ("UCR") represent the portion of net contributions of takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial period. In determining the UCR at balance sheet date, the method that most accurately reflects the actual unearned contributions is used as follows:

- (i) 1/365<sup>th</sup> method for all classes of general takaful business within Malaysia, reduced by the corresponding percentage of accounted gross direct business commissions and agency-related expenses not exceeding the limits specified by Bank Negara Malaysia.
- (ii) Time apportionment method for non-annual certificates and first year annual certificate cover period of more than one year, reduced by the percentage of accounted gross direct business commissions to the corresponding contribution, not exceeding the limits specified by Bank Negara Malaysia.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### R PROVISION FOR CLAIMS OF INSURANCE AND TAKAFUL SUBSIDIARY COMPANIES

#### (i) General Insurance and General Takaful Fund

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

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

#### (ii) Life Insurance and Family Takaful Fund

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

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

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

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

### S LIFE POLICYHOLDERS' FUND

The Life policyholders' fund represents the unallocated surplus and actuarial liabilities and it is considered sufficient to provide for liabilities under life policies in force as at balance sheet date.

The last statutory actuarial valuation of the Life policyholders' fund was at 30 June 2009, details of which are disclosed in Note 26 of the financial statements.

### T FAMILY TAKAFUL FUND

The family takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and includes the amount attributable to participants. The amount attributable to participants represents the accumulated surplus attributable in accordance with the terms and conditions prescribed by the Shariah Advisory Committee of HLTMT.

The family takaful fund surplus/deficit is determined by an annual actuarial valuation of the family takaful fund. Any actuarial deficit in the family takaful fund will be made good by the shareholder's fund via a benevolent loan or Qardhul Hassan.

### U GENERAL TAKAFUL FUND

The general takaful fund is maintained in accordance with the Takaful Act, 1984 and consists of unearned contribution reserves, and accumulated surplus attributable to participants which represents the participants' share in the net surplus of the general takaful revenue account, distributable in accordance with the terms and conditions prescribed by the Shariah Advisory Committee of HLTMT. The general takaful underwriting results are determined for each class of takaful business after taking into account retakaful, unearned contributions and claims incurred. Underwriting deficit will be made good by the shareholders' fund via a benevolent loan or Qardhul Hassan.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### V INCOME TAXES

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based upon the taxable profits.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Deferred income tax is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax related to fair value re-measurement of available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

### W RECOGNITION OF INTEREST INCOME

#### (i) Recognition of interest and Islamic financing income

##### *Recognition of interest income from loans and advances*

Interest income is recognised on an accrual basis.

Where an account is classified as non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income and set-off against the accrued interest receivable amount in the balance sheet. Subsequently, interest earned on non-performing loan is recognised as interest income on cash basis instead of being accrued and suspended at the same time as prescribed previously.

Customers' accounts are classified as non-performing where repayments are in arrears for 3 months or more from the first day of default for loans and overdrafts, and after 3 months from maturity date for trade bills, bankers' acceptances and trust receipts.

The Group's policy on recognition of interest income on loans and advances is in conformity with BNM's "Guidelines on the Classification of Non-Performing Loans and Provision for Substandard Bad and Doubtful Debts" ("BNM/GP3") and the revised BNM/GP8.

##### *Recognition of Islamic financing income*

Islamic financing income is recognised on an accrual basis in accordance with the Shariah principles and BNM/GP8-i.

Where an Islamic financing account becomes non-performing, income earned is not reversed out from the income from financing as "income suspended" and reduced against the loan income receivable accounts. Subsequently, income earned on non-performing loan is recognised as income on a cash basis.

#### (ii) Recognition of other interest income

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



## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### X RECOGNITION OF FEES AND OTHER INCOME

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

Dividends from securities held at fair value through profit or loss, available-for-sale securities, held-to-maturity securities and subsidiary companies are recognised when the rights to receive payment is established.

Net profit from securities held at fair value through profit or loss and available-for-sale securities are recognised upon disposal of the securities, as the difference between net disposal proceeds and the carrying amount of the securities.

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

Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

Rental income is recognised on an accrual basis.

#### (i) Management expenses, commission expenses and wakalah fees

Acquisition costs, commissions and management fees are borne by the family takaful and general takaful funds respectively in the revenue accounts of HLTMT at an agreed percentage of the gross contribution, in accordance with the principles of Wakalah as approved by HLTMT's Shariah Advisory Committee and agreed between the participants and HLTMT. These are transferred to the shareholders' fund via upfront wakalah fee and deferred wakalah fee.

Upfront wakalah fee is recognised as income upon issuance of the certificate.

Deferred wakalah fee is allocated to the Shareholders' fund upon monthly allocation of tabarru/donation charge from participants' funds to the risk fund and is deferred as a liability under "deferred wakalah fee reserve". Deferred wakalah fee is recognised as income based on the recommendation by the appointed actuary when the risk fund is in a surplus position after an annual actuarial valuation of the risk fund at the end of the financial year.

#### (ii) Premium/contribution – general insurance and general takaful fund

Premiums/contributions are recognised in a financial year in respect of risks assumed during that particular financial year. Inward treaty reinsurance premium/retakaful contribution is recognised on the basis of periodic advices received from ceding insurers/takaful operator.

#### (iii) Premium/contribution – life insurance and family takaful fund

Premiums/contributions are recognised as soon as the amount of premiums/contributions can be reliably measured. First premium premium/contribution is recognised from inception date and subsequent premiums/contributions are recognised on due dates.

Inward treaty reinsurance premiums/retakaful contributions are recognised on the basis of periodic advices received from ceding companies.

Outward reinsurance premiums/retakaful contributions are recognised in the same accounting period as the original policies certificates to which the reinsurance/retakaful relates.

#### (iv) Surplus transferable from Life fund to income statement

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

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### Y INSURANCE COMMISSION AND AGENCY EXPENSES

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

### Z ALLOWANCES FOR LOSSES ON LOANS, ADVANCES AND FINANCING, AND OTHER LOSSES

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

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

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

The policy on allowances for losses on loans, advances and financing is in general more stringent than that laid down in BNM/GP3.

Bank Negara Malaysia has granted indulgence to the Group and other local banks from complying with the requirement on the impairment of loans under the revised Guideline on Financial Reporting for Licensed Institutions ("revised BNM/GP8"). Paragraph 4, Appendix A of the revised BNM/GP8 requires the impaired loans to be measured at their estimated recoverable amount. This requirement is principally similar to the requirement under FRS 139 – Financial Instruments: Recognition and Measurement. During the financial year, BNM issued a revised circular on BNM/GP3 which requires impaired credit facilities to be measured at their recoverable amount. This requirement supersedes paragraph 4, Appendix A of the revised BNM/GP8. The Group and other local banks in Malaysia will be deemed to be in compliance with the requirement on the impairment on loans under the revised BNM/GP8 if the allowance for non-performing loans, advances and financing is computed based on BNM's guidelines on the Classification of Non-Performing Loans and Provisions for Substandard, Bad and Doubtful Debts ("BNM/GP3") requirements.

The allowance for bad and doubtful debts arising from stock-broking business is made in conformity with the minimum requirements of allowance for bad and doubtful debts specified in Rule 1104.1 of Schedule 7 (Chapter 11) of the Rules of Bursa Malaysia Securities Berhad.

### AA EMPLOYEE BENEFITS

#### (i) Short term employee benefits

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

#### (ii) Defined contribution plans

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

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

#### (iii) Share-based compensation

The Company operates an equity-settled, share-based compensation plan for the employees of the Company. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement over the vesting periods of the grant with a corresponding increase in equity.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### AA EMPLOYEE BENEFITS *cont'd*

#### (iii) Share-based compensation *cont'd*

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

A trust has been set up for the Employee Share Option Scheme ("ESOS") and is administered by an appointed trustee. The trustee will be entitled from time to time to accept financial assistance from the company upon such terms and conditions as the company and the trustee may agree to purchase the Company's stocks from the open market for the purposes of this trust.

In accordance with FRS 132, the shares purchases for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS Scheme" in equity on the balance sheet. The cost of operating the ESOS scheme would be charged to the income statement when incurred in accordance with accounting standards.

Details of treasury shares are as discussed in Note 29 of the financial statements.

### AB CURRENCY TRANSLATIONS

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia, which is the Group's and the Company's functional and presentation currency.

#### (ii) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets are recognised in income as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

#### (iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

## Summary of Significant Accounting Policies for the financial year ended 30 June 2009

### **AB CURRENCY TRANSLATIONS** *cont'd*

#### **(iii) Group companies** *cont'd*

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### **AC CASH AND CASH EQUIVALENTS**

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

### **AD IMPAIRMENT OF ASSETS**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

### **AE ZAKAT**

In respect of the Islamic Banking operations, the Group only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. The amount is payable by the Group in compliance with Shariah principles.

### **AF SEGMENT REPORTING**

Segment reporting is presented for enhanced assessment of the Group's risk and return. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those components.

Segment revenue, expense, assets and liabilities are those amount resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

### **AG IMPAIRMENT OF SECURITIES PORTFOLIO**

The Group assess at each balance sheet date whether there is objective evidence that the securities are impaired. A security or a group of securities is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the securities (a 'loss event') and that loss event has an impact on the estimated future cash flows of the securities that can be reliably estimated.

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**Summary of Significant Accounting Policies**  
for the financial year ended 30 June 2009

**AG IMPAIRMENT OF SECURITIES PORTFOLIO *cont'd***

**(i) Securities carried at amortised cost**

If there is an objective evidence that an impairment loss on held-to-maturity instruments held at amortised cost has been incurred, the amount of loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the securities' original effective interest rate. The carrying amount of the securities is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

**(ii) Securities carried at fair value**

In the case of equity instruments classified as available-for-sale securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If there is an objective evidence that an impairment loss on available-for-sale securities has been incurred, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the securities previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale securities increases and the increase can be related objectively to an event occurring after the impairment was recognised in the income statement, the impairment loss is reversed through the income statement.

## Notes to the Financial Statements

for the financial year ended 30 June 2009

### 1 GENERAL INFORMATION

The principal activities of the Company are those of investment holding and provision of services to its subsidiaries to enhance group value.

The Hong Leong Financial Group (the Company and its subsidiaries) is a diversified financial group whose businesses provide a broad range of financial products and services to consumer and corporate and institutional customers.

The principal activities of the subsidiary companies are disclosed in Note 11 to the financial statements.

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

The address of the registered office of the Company is Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur.

### 2 CASH AND SHORT TERM FUNDS

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Cash and balances with banks and other financial institutions	806,764	278,465	291	99
Money at call and deposit placements maturing within one month	18,693,412	23,177,695	2,500	11,600
	19,500,176	23,456,160	2,791	11,699

Included in cash and short term funds of the Group are accounts held in trust for clients' and dealers' representatives amounting to RM209,534,000 (2008: RM139,950,000).

### 3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2009 RM'000	2008 RM'000
Bank Negara Malaysia ("BNM")	3,170,600	200,000
Licensed banks	2,008,671	1,812,244
Licensed investment banks	-	100,000
Other financial institutions	547,547	180,562
	5,726,818	2,292,806

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**4 SECURITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>Held-for-trading</b>				
<b>Money market instruments</b>				
Bank Negara Malaysia bills	1,738,604	1,170,850	-	-
Malaysian Government treasury bills	458,307	129,937	-	-
Malaysian Government securities	838,842	195,689	-	-
Malaysian Government investment certificates	136,143	55,188	-	-
Bankers' acceptances and Islamic accepted bills	2,983,607	2,862,379	-	-
Negotiable instruments of deposit	887,971	306,353	-	-
Khazanah bonds	14,922	47,334	-	-
	7,058,396	4,767,730	-	-
<b>Quoted securities</b>				
Shares quoted in Malaysia	5,801	82,394	-	-
Shares quoted outside Malaysia	-	11,107	-	-
Unit trusts investments	19,293	-	18,950	-
Foreign currency bonds	8,783	1,691	-	-
	7,092,273	4,862,922	18,950	-
<b>Unquoted securities</b>				
Private debt securities	-	14,863	-	-
	7,092,273	4,877,785	18,950	-

During the financial year, the Group reclassified a portion of its equity securities from held-for-trading to the available-for-sale category based on current market prices at the relevant dates of the reclassification. The reclassification has been accounted for in accordance with the BNM circular on "Reclassification of Securities under Specific Circumstances" dated 17 October 2008, which is effective from 1 July 2008 until 31 December 2009.

The fair value of the securities reclassified from the held-for-trading category to the available-for-sale category as at the date of reclassification is RM58,052,000.

Included in the non-interest income (Note 33) is the net losses arising from the change in fair value recognised in the income statement in respect of the reclassified securities:

	The Group	
	2009 RM'000	2008 RM'000
Net fair value loss	(18,531)	(3,909)

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**5 AVAILABLE-FOR-SALE SECURITIES**

	The Group	
	2009 RM'000	2008 RM'000
<b>Money market instruments</b>		
Government treasury bills	379,600	432,902
Malaysian Government securities	2,074,034	2,208,381
Malaysian Government investment certificates	728,237	1,505,134
Singapore government securities	24,601	-
Other Government securities	94,384	115,502
Khazanah bonds	9,948	9,531
Cagamas bonds	162,084	989,995
Negotiable instruments of deposit	-	16,760
	3,472,888	5,278,205
<b>Quoted securities</b>		
Shares quoted in Malaysia	421,699	362,073
Shares quoted outside Malaysia	923	2,445
Loans stocks quoted in Malaysia	1,540	2,497
Unit trust investments	75,298	83,059
Foreign currency bonds	979,272	769,054
	4,951,620	6,497,333
<b>Unquoted securities</b>		
Shares	4,837	2,392
Private and Islamic debt securities	2,123,319	1,940,121
	7,079,776	8,439,846

Included in the available-for-sale securities are securities transferred from the held-for-trading category during the financial year, with the following fair value as at 30 June 2009 (2008: no such reclassification permitted):

	The Group	
	2009 RM'000	2008 RM'000
Fair value	60,750	-



Notes to the Financial Statements  
for the financial year ended 30 June 2009

**6 HELD-TO-MATURITY SECURITIES**

	The Group	
	2009 RM'000	2008 RM'000
<b>Money market instruments</b>		
Malaysian Government securities	1,670,241	752,186
Malaysian Government investment certificates	105,514	60,305
Cagamas bonds	279,873	230,314
Negotiable instruments of deposit	4,073,323	1,718,179
	6,128,951	2,760,984
<b>Unquoted securities</b>		
Shares*	38,133	37,402
Loan stocks	8,122	9,163
Private and Islamic debt securities	408,150	371,216
	6,583,356	3,178,765
Accumulated impairment losses	(16,577)	(16,947)
	6,566,779	3,161,818

\* As allowed under revised BNM/GP8

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**7 LOANS, ADVANCES AND FINANCING**

	The Group	
	2009 RM'000	2008 RM'000
Overdrafts	2,091,226	2,435,782
Term loans/financing:		
- Housing loans/financing	20,496,440	19,445,381
- Syndicated term loans/financing	1,685,228	1,422,294
- Hire purchase receivables	5,829,968	6,167,037
- Lease receivables	16,418	22,602
- Other term loans/financing	1,775,639	2,512,094
Credit/charge card receivables	2,017,519	1,925,986
Bills receivable	211,019	357,255
Trust receipts	92,982	139,725
Policy and premium loans	620,281	556,612
Claims on customer under acceptance credits	3,230,902	3,057,364
Block discounting	8,218	8,422
Revolving credit	1,250,892	799,314
Staff loans/financing	96,686	102,020
Other loans/financing	100,014	48,339
	<b>39,523,432</b>	<b>39,000,227</b>
Less:		
Unearned interest and income	(3,219,240)	(3,001,136)
Gross loans, advances and financing	<b>36,304,192</b>	<b>35,999,091</b>
Fair value changes arising from fair value hedges	56,892	(52,978)
Unamortised fair value changes arising from terminated fair value hedges	13,381	17,261
Less:		
Allowance for bad and doubtful debts and financing		
- specific	(330,119)	(345,781)
- general	(546,080)	(526,957)
Total net loans, advances and financing	<b>35,498,266</b>	<b>35,090,636</b>

The Group have designated fair value hedges on certain receivables using interest rate futures and interest rate swaps. The total fair value loss of the said interest rate futures and interest rate swaps relating to these hedges at 30 June 2009 amounted to RM38,321,972 (2008: gain of RM48,707,005).

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**7 LOANS, ADVANCES AND FINANCING** *cont'd*

(i) The maturity structure of loans, advances and financing is as follows:

	The Group	
	2009	2008
	RM'000	RM'000
<b>Maturing within</b>		
- one year	10,046,987	10,496,680
- one year to three years	2,771,427	2,755,816
- three years to five years	2,926,024	2,921,256
- over five years	20,559,754	19,825,339
<b>Gross loans, advances and financing</b>	<b>36,304,192</b>	<b>35,999,091</b>

(ii) The loans, advances and financing are disbursed to the following types of customers:

	The Group	
	2009	2008
	RM'000	RM'000
Domestic non-bank financial institutions other than stockbroking companies		
Domestic business enterprises	86,327	122,659
- small medium enterprises	3,250,429	3,505,565
- others	7,131,298	7,200,936
Government and statutory bodies	369	1,592
Individuals	24,721,866	24,034,103
Other domestic entities	16,185	25,976
Foreign entities	1,097,718	1,108,260
<b>Gross loans, advances and financing</b>	<b>36,304,192</b>	<b>35,999,091</b>

(iii) Loans, advances and financing analysed by interest rate sensitivity are as follows:

	The Group	
	2009	2008
	RM'000	RM'000
<b>Fixed rate</b>		
- Housing loans/financing	673,204	1,634,343
- Hire purchase receivables	5,087,484	5,395,285
- Credit card	2,017,519	1,925,986
- Other fixed rate loan/financing	1,703,209	1,655,827
<b>Variable rate</b>		
- Base lending rate plus	23,240,974	22,468,590
- Cost plus	3,531,706	2,800,269
- Other variable rates	50,096	118,791
<b>Gross loans, advances and financing</b>	<b>36,304,192</b>	<b>35,999,091</b>

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**7 LOANS, ADVANCES AND FINANCING** *cont'd*

(iv) Loans, advances and financing analysed by their economic purposes are as follows:

	The Group	
	2009 RM'000	2008 RM'000
Purchase of securities	486,955	517,205
Purchase of transport vehicles	4,848,428	5,017,181
Residential property (Housing)	13,922,382	13,275,941
Non-residential property	4,257,268	4,232,178
Personal use	2,710,071	2,363,560
Credit card	2,017,519	1,925,986
Purchase of consumer durables	54	128
Construction	448,043	541,258
Working capital	6,989,520	7,564,139
Other purpose	623,952	561,515
<b>Gross loans, advances and financing</b>	<b>36,304,192</b>	<b>35,999,091</b>

(v) Non-performing loans, advances and financing analysed by their economic purposes are as follows:

	The Group	
	2009 RM'000	2008 RM'000
Purchase of securities	13,285	13,793
Purchase of transport vehicles	48,996	56,043
Residential property (Housing)	235,867	229,221
Non-residential property	62,761	79,537
Personal use	56,872	40,969
Credit card	36,446	28,751
Construction	32,662	38,592
Working capital	315,555	353,496
<b>Non-performing loans, advances and financing</b>	<b>802,444</b>	<b>840,402</b>

(vi) Movements in the non-performing loans and financing are as follows:

	The Group	
	2009 RM'000	2008 RM'000
At 1 July	840,402	1,033,380
Non-performing during the financial year	2,793,986	2,594,538
Performing during the financial year	(2,314,165)	(2,195,316)
Amount written back in respect of recoveries	(257,924)	(332,256)
Amount written off	(261,211)	(261,664)
Amount arising from acquisition of SBBS	1,114	-
Exchange differences	242	1,720
At 30 June	802,444	840,402
Specific allowance	(330,119)	(345,781)
<b>Net non-performing loans, advances and financing</b>	<b>472,325</b>	<b>494,621</b>
Ratio of non-performing loans to total loans, advances and financing net of specific allowance	1.3%	1.4%

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**7 LOANS, ADVANCES AND FINANCING** *cont'd*

(vii) Movements in the allowance for bad and doubtful debts and financing are as follows:

	The Group	
	2009 RM'000	2008 RM'000
<b>Specific allowance</b>		
At 1 July	345,781	412,760
Allowances made during the financial year	317,495	298,603
Amount written back in respect of recoveries	(73,641)	(105,139)
Amount written off	(260,857)	(261,663)
Amount arising from acquisition of SBBS	1,114	-
Exchange differences	227	1,220
At 30 June	330,119	345,781
<b>General allowance</b>		
At 1 July	526,957	481,746
Net allowances made during the financial year	17,892	44,443
Amount arising from acquisition of SIBB	524	-
Allowances arising from loans and advances acquired from SBBS	178	-
Exchange differences	529	768
At 30 June	546,080	526,957
(as % of total loans, advances and financing, less specific allowance)	1.5%	1.5%

**8 CLIENTS' AND BROKERS' BALANCES**

Clients' and brokers' balances represent amount receivable from outstanding purchase contracts in respect of the Group's stockbroking and futures business entered on behalf of clients, amount due from brokers and contra losses.

	The Group	
	2009 RM'000	2008 RM'000
Performing accounts	266,862	246,306
Non-performing accounts - Bad	73,406	76,032
- Doubtful	53	-
	340,321	322,338
Less: Allowances for bad and doubtful debts		
- specific	(73,432)	(76,032)
- general	(50)	(125)
- interest in suspense	(46,687)	(43,994)
	220,152	202,187

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**8 CLIENTS' AND BROKERS' BALANCES** *cont'd*

Movements in the allowances for bad and doubtful debts are as follows:

	The Group	
	2009 RM'000	2008 RM'000
<b>Specific allowance</b>		
At 1 July	76,032	76,334
Allowances made during the financial year	-	531
Allowances written back during the financial year	(2,600)	(833)
At 30 June	73,432	76,032
<b>General allowance</b>		
At 1 July	125	133
Allowances made during the financial year	43	-
Allowances written back during the financial year	(118)	(8)
At 30 June	50	125
<b>Interest-in-suspense</b>		
At 1 July	43,994	41,765
Interest suspended during the financial year	2,693	2,229
At 30 June	46,687	43,994

**9 OTHER RECEIVABLES**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Foreclosed properties	1,875	2,595	-	-
Interest receivable	130,742	166,203	-	-
Amount due from:				
- subsidiary companies	-	-	55,259	18,251
- other related companies	895	55	9	50
Other debtors, deposits and prepayments	434,748	1,115,485	2,118	1,885
Investment link business assets	367,675	316,485	-	-
General and family takaful fund assets (Note (a))	217,337	163,869	-	-
Derivative financial instruments (Note 21)	776,344	733,609	6,367	-
	1,929,616	2,498,301	63,753	20,186

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**9 OTHER RECEIVABLES** *cont'd*

(a) General and family takaful fund assets

	The Group 2009		Total RM'000
	General Takaful Fund RM'000	Family Takaful Fund RM'000	
<b>Assets</b>			
Cash and bank balances	104	354	458
Investments	1,928	17,665	19,593
Receivables	1,614	3,555	5,169
Investment-linked business assets	-	192,117	192,117
	3,646	213,691	217,337

	The Group 2008		Total RM'000
	General Takaful Fund RM'000	Family Takaful Fund RM'000	
<b>Assets</b>			
Cash and bank balances	252	4,070	4,322
Investments	411	9,053	9,464
Receivables	88	1,647	1,735
Investment-linked business assets	-	148,348	148,348
	751	163,118	163,869

**10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA ("BNM")**

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

Notes to the Financial Statements  
for the financial year ended 30 June 2009

11 INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2009 RM'000	2008 RM'000
<b>Subsidiary companies</b>		
Unquoted shares at cost	273,010	273,110
Shares quoted in Malaysia at cost	1,775,239	1,775,239
	<b>2,048,249</b>	<b>2,048,349</b>
At 1 July	2,048,349	2,048,349
Less: Disposal of subsidiary <sup>(1)</sup>	(100)	-
At 30 June	<b>2,048,249</b>	<b>2,048,349</b>
<b>Market value</b>		
Shares quoted in Malaysia	5,530,448	5,979,160

<sup>(1)</sup> On 1 July 2008, the Company disposed 100% of equity interest in Raikon Building Management Co. Sdn Bhd (Refer to Note 52).

The subsidiary companies of the Company are as follows:

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2009	2008	
		%	%	
(a) Hong Leong Assurance Berhad and its subsidiary company:	Malaysia	100.00	100.00	Life and general insurance business
(i) Allstate Health Benefits Sdn Bhd and its subsidiary:	Malaysia	100.00	100.00	Investment holding
- Hong Leong Insurance Asia Limited (formerly known as Dao Heng Insurance Co. Limited)*	Hong Kong	100.00	100.00	General insurance business
(ii) Unincorporated trust for ESOS <sup>□</sup>	Malaysia	-	-	Special purpose vehicle for ESOS
(b) HLA Holdings Sdn Bhd	Malaysia	100.00	100.00	Investment holding
(c) Hong Leong Equities Sdn Bhd	Malaysia	100.00	100.00	Investment in stocks, shares and other securities
(d) HLFG Assets Sdn Bhd	Malaysia	100.00	100.00	Investment holding
(i) Natcap Portfolio Sdn Bhd	Malaysia	100.00	100.00	In member's voluntary liquidation
(ii) AutoWeb Sdn Bhd	Malaysia	100.00	100.00	In member's voluntary liquidation



Notes to the Financial Statements  
for the financial year ended 30 June 2009

11 INVESTMENT IN SUBSIDIARY COMPANIES *cont'd*

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2009	2008	
		%	%	
(e) Raikon Building Management Co. Sdn Bhd	Malaysia	-	100.00	Disposed
(f) Wing Trade Investments Limited	British Virgin Islands	100.00	100.00	Investment holding
(g) Heritage Vest (M) Sdn Bhd	Malaysia	-	100.00	Dissolved
(h) Unincorporated trust for ESOS <sup>Ω</sup>	Malaysia	-	-	Special purpose vehicle for ESOS
(i) HLG Capital Berhad and its subsidiary companies:	Malaysia	75.00	75.00	Investment holding
(i) HLG Asset Management Sdn Bhd	Malaysia	75.00	75.00	Fund management
(ii) HLG Securities Sdn Bhd	Malaysia	75.00	75.00	Investment holding
(iii) HLG Capital Markets Sdn Bhd and its subsidiary company:	Malaysia	75.00	75.00	Investment holding
- HLG Principal Investments (L) Limited	Malaysia	75.00	75.00	Holding of or dealing in offshore investments
(iv) Hong Leong Investment Bank Bhd (formerly known as HLG Credit Bhd and HLG Credit Sdn Bhd) and its subsidiary companies:	Malaysia	75.00	75.00	Investment banking and stockbroking
- HLG Nominee (Tempatan) Sdn Bhd	Malaysia	75.00	75.00	Agent and nominee for Malaysian clients
- HLG Nominee (Asing) Sdn Bhd	Malaysia	75.00	75.00	Agent and nominee for foreign clients
- RC Holdings Sdn Bhd (formerly known as SBB Securities Sdn Bhd)	Malaysia	75.00	-	Dormant
- RC Research Sdn Bhd (formerly known as SBB Sec Research Sdn Bhd)	Malaysia	75.00	-	Dormant
- RC Nominees (Asing) Sdn Bhd	Malaysia	75.00	-	Dormant
- RC Nominees (Tempatan) Sdn Bhd	Malaysia	75.00	-	Dormant
(v) HLG Futures Sdn Bhd	Malaysia	75.00	75.00	Futures and options broking
(vi) HLG Unit Trust Bhd	Malaysia	75.00	75.00	Sales of unit trust and management of unit trust funds
(vii) Unincorporated trust for ESOS <sup>Ω</sup>	Malaysia	-	-	Special purpose vehicle for ESOS
(j) Hong Leong Bank Berhad and its subsidiary companies:	Malaysia	63.85	63.67	Licensed bank
(i) Hong Leong Islamic Bank Berhad	Malaysia	63.85	63.67	Islamic banking business
(ii) Hong Leong Tokio Marine Takaful Berhad	Malaysia	45.12	45.02▲	Takaful business
(iii) HLF Credit (Perak) Berhad and its subsidiary companies:	Malaysia	63.85	63.67	Investment holding

Notes to the Financial Statements  
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11 INVESTMENT IN SUBSIDIARY COMPANIES *cont'd*

Name of company	Place of incorporation	Effective percentage of ownership		Principal activities
		2009 %	2008 %	
- Gensource Sdn Bhd (formerly known as Gensource Berhad) and its subsidiary company:	Malaysia	63.85	63.67	Dormant
• Pelita Terang Sdn Bhd	Malaysia	63.85	63.67	Dormant
- WTB Corporation Sdn Bhd (formerly known as WTB Corporation Berhad) and its subsidiary companies:	Malaysia	63.85	63.67	Dormant
• Wah Tat Nominees (Tempatan) Sdn Bhd	Malaysia	63.85	63.67	Agent and nominee for Malaysian clients
• Wah Tat Nominees (Asing) Sdn Bhd	Malaysia	63.85	63.67	Agent and nominee for foreign clients
• Wah Tat Properties Sdn Bhd	Malaysia	-	63.67	Dissolved
- Chew Geok Lin Finance Sdn Bhd (formerly known as Chew Geok Lin Finance Berhad)	Malaysia	63.85	63.67	Dormant
- Hong Leong Leasing Sdn Bhd*	Malaysia	63.85	63.67	Dormant
- HL Leasing Sdn Bhd	Malaysia	63.85	63.67	Dormant
- HLB Realty Sdn Bhd	Malaysia	63.85	63.67	Real property investment
(iv) HLB Nominees (Tempatan) Sdn Bhd	Malaysia	63.85	63.67	Agent and nominee for Malaysian clients
(v) HL Bank Nominees (Singapore) Pte Ltd <sup>+</sup>	Singapore	63.85	63.67	Agent and nominee for clients
(vi) HLB Nominees (Asing) Sdn Bhd	Malaysia	63.85	63.67	Agent and nominee for foreign clients
(vii) HLB Trade Services (Hong Kong) Limited <sup>+</sup>	Hong Kong	63.85	63.67	Ceased operations
(viii) HLB Principal Investments (L) Limited	Malaysia	63.85	63.67	Holding of/or dealings in offshore investments
(ix) Unincorporated trust for ESOS <sup>Ω</sup>	Malaysia	-	-	Special purpose vehicle for ESOS
(x) Famehub Quest Sdn Bhd <sup>Ω+</sup>	Malaysia	-	-	Special purpose vehicle
(xi) Famehub Capital Sdn Bhd <sup>Ω+</sup>	Malaysia	-	-	Special purpose vehicle
(xii) Allegra Capital Investments Ltd <sup>Ω@+</sup>	British Virgin Islands	-	-	Special purpose vehicle
(xiii) GoldPearl International Ltd <sup>Ω@+</sup>	British Virgin Islands	-	-	Special purpose vehicle

\* Not audited by PricewaterhouseCoopers

+ Not audited by member firms of PricewaterhouseCoopers International

▲ Total effective percentage ownership of the Company in Hong Leong Tokio Marine Takaful Berhad includes 10% held by HLA

Ω Deemed subsidiary pursuant to IC 112 - Consolidation: Special Purpose Entities

@ Compartment subsidiary consolidated pursuant to IC 112 – Consolidation : Special Purpose Entities

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**12 INVESTMENT IN ASSOCIATED COMPANY**

	The Group	
	2009 RM'000	2008 RM'000
Unquoted shares outside Malaysia, at cost	946,505	-
Share of results	99,462	-
Revaluation reserve – Available for sale securities	(682)	-
	<b>1,045,285</b>	<b>-</b>

(a) The Group's share of income and expenses of the associate is as follows:

	The Group	
	2009 RM'000	2008 RM'000
Revenue	343,285	-
Profit after taxation	99,462	-

(b) The Group's share of assets and liabilities of the associate is as follows:

	The Group	
	2009 RM'000	2008 RM'000
Total assets	8,071,351	-
Total liabilities	7,342,850	-
Commitments and contingencies	686,759	-

Details of the associate held by the Group are as follows:

	Principal activities	Percentage (%) of equity held	
		2009	2008
		%	%
Bank of Chengdu Co Ltd (formerly known as Chengdu City Commercial Bank Co Ltd)	Commercial banking	20	-

**13 DEFERRED TAXATION**

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

		The Group	
		2009 RM'000	2008 RM'000
Deferred tax assets	(a)	217,276	174,690
Deferred tax liabilities	(b)	(2,097)	(2,019)
		<b>215,179</b>	<b>172,671</b>

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**13 DEFERRED TAXATION** *cont'd*

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

**(a) Deferred tax assets**

	General allowance RM'000	Excess of capital allowance over depreciation RM'000	Available- for-sale securities RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	Total RM'000
At 1 July 2008	131,869	(9,991)	4,591	-	48,221	174,690
Credited/(charged) to income statement	4,545	1,770	-	57,231	(27,118)	36,428
Transferred to equity	-	-	6,158	-	-	6,158
At 30 June 2009	136,414	(8,221)	10,749	57,231	21,103	217,276
At 1 July 2007	125,353	(14,186)	1,292	-	50,456	162,915
Credited/(charged) to income statement	6,516	4,195	-	-	(2,235)	8,476
Transferred to equity	-	-	3,299	-	-	3,299
At 30 June 2008	131,869	(9,991)	4,591	-	48,221	174,690

**(b) Deferred tax liabilities**

	Excess of depreciation over capital allowance RM'000	Other temporary differences RM'000	Total RM'000
At 1 July 2008	(3,744)	1,725	(2,019)
Charged to income statement	(21)	-	(21)
Transfer from life fund	(57)	-	(57)
At 30 June 2009	(3,822)	1,725	(2,097)
At 1 July 2007	-	(775)	(775)
(Charged)/credited to income statement	(3,744)	2,500	(1,244)
At 30 June 2008	(3,744)	1,725	(2,019)

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**14 PREPAID LEASE PAYMENTS**

	Leasehold land less than 50 years RM'000	Leasehold land 50 years or more RM'000	Total RM'000
<b>The Group</b>			
<b>Cost</b>			
At 1 July 2008	8,593	3,876	12,469
Amount arising from acquisition of SBBS	-	1,133	1,133
At 30 June 2009	8,593	5,009	13,602
<b>Amortisation</b>			
At 1 July 2008	2,612	740	3,352
Amortisation during the financial year	117	10	127
At 30 June 2009	2,729	750	3,479
Net book value as at 30 June 2009	5,864	4,259	10,123

**The Group**

**Cost**

At 1 July 2007	7,713	4,396	12,109
Disposals	-	(520)	(520)
Reclassifications	880	-	880
At 30 June 2008	8,593	3,876	12,469

**Amortisation**

At 1 July 2007	2,494	806	3,300
Amortisation during the financial year	118	9	127
Disposals	-	(75)	(75)
At 30 June 2008	2,612	740	3,352
Net book value as at 30 June 2008	5,981	3,136	9,117

Future amortisation of prepaid lease payments are as follows:

	2009		2008	
	Less than 50 Years RM'000	50 years or more RM'000	Less than 50 years RM'000	50 years or more RM'000
<b>The Group</b>				
- Not later than 1 year	105	79	140	88
- Later than 1 year and not later than 5 years	422	315	597	310
- Later than 5 years	5,337	3,865	5,244	2,738
	5,864	4,259	5,981	3,136

Notes to the Financial Statements  
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**15 PROPERTY AND EQUIPMENT**

	Land and building*	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Capital work in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>The Group</b>						
Net book value at 1 July 2008	284,531	92,329	41,931	8,283	81,392	508,466
Exchange differences	1,357	127	13	1	-	1,498
Additions	75,699	29,780	11,054	2,258	31,858	150,649
Disposals	(837)	(295)	(509)	(564)	-	(2,205)
Arising from acquisition/ (disposal) of subsidiaries	871	472	(46)	17	-	1,314
Reclassification	-	113	(93)	(20)	-	-
Depreciation charge during the financial year	(4,325)	(38,124)	(12,295)	(2,616)	-	(57,360)
Net book value at 30 June 2009	357,296	84,402	40,055	7,359	113,250	602,362
<b>At 30 June 2009</b>						
Cost	392,520	415,171	193,788	16,388	113,250	1,131,117
Accumulated depreciation	(35,224)	(330,769)	(153,733)	(9,029)	-	(528,755)
Net book value	357,296	84,402	40,055	7,359	113,250	602,362
<b>The Group</b>						
Net book value at 1 July 2007	288,300	59,205	43,708	12,300	69,023	472,536
Exchange differences	92	22	73	13	-	200
Additions	5,400	69,207	12,774	2,237	12,414	102,032
Disposals	(4,676)	(905)	(887)	(2,744)	-	(9,212)
Reclassifications	(880)	-	-	-	(45)	(925)
Depreciation charge during the financial year	(3,705)	(35,200)	(13,737)	(3,523)	-	(56,165)
Net book value at 30 June 2008	284,531	92,329	41,931	8,283	81,392	508,466
<b>At 30 June 2008</b>						
Cost	315,314	376,564	176,766	16,638	81,392	966,674
Accumulated depreciation	(30,783)	(284,235)	(134,835)	(8,355)	-	(458,208)
Net book value	284,531	92,329	41,931	8,283	81,392	508,466

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**15 PROPERTY AND EQUIPMENT *cont'd***

\* Land and building consists of the following:

	Freehold		Long term leasehold building	Short term leasehold building	Total
	land RM'000	building RM'000	RM'000	RM'000	RM'000
<b>The Group</b>					
Net book value at 1 July 2008	104,184	140,962	37,422	1,963	284,531
Exchange differences	-	-	1,357	-	1,357
Additions	-	-	75,699	-	75,699
Disposals	-	(837)	-	-	(837)
Arising from acquisition of subsidiaries	-	-	871	-	871
Depreciation charge during the financial year	-	(3,397)	(928)	-	(4,325)
Net book value at 30 June 2009	104,184	136,728	114,421	1,963	357,296
<b>At 30 June 2009</b>					
Cost	104,184	163,813	121,840	2,683	392,520
Accumulated depreciation	-	(27,085)	(7,419)	(720)	(35,224)
Net book value	104,184	136,728	114,421	1,963	357,296
<b>The Group</b>					
Net book value at 1 July 2007	101,322	144,543	40,419	2,016	288,300
Exchange differences	-	-	92	-	92
Additions	3,980	1,420	-	-	5,400
Disposals	(1,118)	(1,703)	(1,855)	-	(4,676)
Reclassifications	-	-	(880)	-	(880)
Depreciation charge during the financial year	-	(3,298)	(354)	(53)	(3,705)
Net book value at 30 June 2008	104,184	140,962	37,422	1,963	284,531
<b>At 30 June 2008</b>					
Cost	104,184	164,938	43,509	2,683	315,314
Accumulated depreciation	-	(23,976)	(6,087)	(720)	(30,783)
Net book value	104,184	140,962	37,422	1,963	284,531

Notes to the Financial Statements  
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15 PROPERTY AND EQUIPMENT *cont'd*

	Office and computer equipment RM'000	Furniture, fittings and renovation RM'000	Motor vehicles RM'000	Total RM'000
<b>The Company</b>				
Net book value at 1 July 2008	173	1,169	2,183	3,525
Additions	21	33	291	345
Disposals/write off	-	(111)	(26)	(137)
Reclassification	(2)	2	-	-
Depreciation charge during the financial year	(83)	(136)	(626)	(845)
Net book value at 30 June 2009	109	957	1,822	2,888
<b>At 30 June 2009</b>				
Cost	532	1,468	3,881	5,881
Accumulated depreciation	(423)	(511)	(2,059)	(2,993)
Net book value	109	957	1,822	2,888
<b>The Company</b>				
Net book value at 1 July 2007	93	549	3,494	4,136
Additions	142	725	325	1,192
Disposals	(2)	(7)	(812)	(821)
Depreciation charge during the financial year	(60)	(98)	(824)	(982)
Net book value at 30 June 2008	173	1,169	2,183	3,525
<b>At 30 June 2008</b>				
Cost	521	1,898	3,725	6,144
Accumulated depreciation	(348)	(729)	(1,542)	(2,619)
Net book value	173	1,169	2,183	3,525



Notes to the Financial Statements  
for the financial year ended 30 June 2009

**16 INVESTMENT PROPERTIES**

	The Group	
	2009 RM'000	2008 RM'000
<b>Fair value</b>		
At 1 July	1,600	1,280
Fair value gains	-	320
At 30 June	1,600	1,600

The analysis of investment properties is as follows:

Leasehold land and building	1,600	1,600
-----------------------------	-------	-------

The fair value of the properties was estimated at RM1,600,000 (2008: RM1,600,000) based on open market valuation by an independent professional valuer, Messrs D.B Das Gupta, Chartered Surveyor and Registered Valuer (V-127).

**17 GOODWILL ARISING ON CONSOLIDATION**

	The Group	
	2009 RM'000	2008 RM'000
At 1 July	536,135	527,400
Rateable goodwill attributable to share buy back of a subsidiary company	5	1,797
Goodwill arising from acquisition of additional interest in subsidiary	7,965	6,938
Goodwill arising from acquisition of SIBB and SBBS	85,396	-
Impairment made during the financial year	(57,236)	-
At 30 June	572,265	536,135

**Allocation of goodwill to cash-generating units**

Goodwill has been allocated to the following cash-generating-units ("CGUs"):

CGU	2009		2008	
	RM'000		RM'000	
Commercial banking	395,393	388,013		
Investment banking and asset management	99,808	71,058		
Insurance	77,064	77,064		
	572,265	536,135		

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**17 GOODWILL ARISING ON CONSOLIDATION *cont'd***

The recoverable amount of the CGUs are determined based on the fair values as at 30 June 2009.

**(i) Commercial banking CGU**

The fair value of the Banking CGU have been determined using the quoted market prices as at 30 June 2009 by Bursa Malaysia Securities Berhad.

**(ii) Investment banking and asset management CGU**

The fair value is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by directors covering a one-year period. Cash flows beyond the one-year period are assumed to grow at 4% to infinity.

The cash flow projections are derived based on a number of key factors including the past performance and management's expectations at the market development. The pre-tax discount rate is 11.4% and reflect specific risks relating to the segment.

**(iii) Insurance CGU**

The fair value of the Insurance CGU is derived using the actuarial valuation for the life insurance business and in respect of the general insurance business, a one time multiple of the net tangible asset of the company.

The actuarial value of the life insurance fund is based on the latest position as at balance sheet date, using the most recently available assumptions at the point of assessment. Such assumptions are derived from historical experience of the insurer and current industry trends and positions.

An impairment charge of RM57,236,000 was required for goodwill arising from investment banking and asset management segment. Management believes that any reasonable possible change to the assumptions applied may likely to cause the recoverable amount of all the business segments to be lower than recoverable amount, or to be fully impaired.

**18 INTANGIBLE ASSETS – COMPUTER SOFTWARE**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>Cost</b>				
At 1 July	192,354	183,698	503	149
Additions	10,679	14,847	4	355
Amount arising from acquisition of SIBB	43	-	-	-
Disposals/Write-off	(86)	(6,236)	-	(1)
Reclassifications	-	45	3	-
At 30 June	202,990	192,354	510	503
<b>Accumulated amortisation</b>				
At 1 July	139,929	122,131	151	129
Disposals/Write-off	(56)	(6,149)	-	(1)
Amortisation during the financial year	22,657	23,931	126	23
Reclassifications	-	16	3	-
At 30 June	162,530	139,929	280	151
Net book value	40,460	52,425	230	352

Notes to the Financial Statements  
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**19 DEPOSITS FROM CUSTOMERS**

	The Group	
	2009	2008
	RM'000	RM'000
Fixed deposits	36,852,359	33,979,359
Negotiable instruments of deposit	3,526,455	1,697,204
	40,378,814	35,676,563
Demand deposits	6,761,540	5,950,840
Savings deposits	7,841,769	7,491,714
Short term corporate placements	11,638,034	12,727,011
Others	641,929	215,397
	67,262,086	62,061,525

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

	The Group	
	2009	2008
	RM'000	RM'000
<b>Due within</b>		
- Six months	31,125,967	25,480,604
- Six months to one year	8,557,265	9,251,814
- One year to three years	695,582	944,145
	40,378,814	35,676,563

(ii) The deposits are sourced from the following customers:

	The Group	
	2009	2008
	RM'000	RM'000
Government and statutory bodies	714,312	985,187
Business enterprises	32,943,191	29,601,029
Individuals	32,608,117	30,877,001
Others	996,466	598,308
	67,262,086	62,061,525

**20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	The Group	
	2009	2008
	RM'000	RM'000
Licensed banks	2,172,604	5,891,409
Licensed investment banks	29,700	481,167
Other financial institutions	211,675	-
	2,413,979	6,372,576

Notes to the Financial Statements  
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**21 DERIVATIVE FINANCIAL INSTRUMENTS**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>Derivatives at fair value through profit or loss</b>				
- interest rate swaps	402,501	305,444	6,367	-
- cross currency swaps	175,031	188,907	-	-
- foreign currency forwards	159,712	144,937	-	-
- foreign currency options	1,455	11,792	-	-
- futures	3,090	15,689	-	-
- equity options	75	1,102	-	-
- cap/floors	-	569	-	-
<b>Derivatives designated as fair value hedge</b>				
- interest rate swaps	34,480	60,873	-	-
- futures	-	4,296	-	-
<b>Total derivative financial instruments assets</b>	<b>776,344</b>	<b>733,609</b>	<b>6,367</b>	<b>-</b>
<b>Derivatives at fair value through profit or loss</b>				
- interest rate swaps	(431,320)	(368,326)	-	-
- cross currency swaps	(69,484)	(67,757)	-	-
- foreign currency forwards	(84,196)	(98,620)	-	-
- foreign currency options	(842)	(6,586)	-	-
- equity options	(75)	(1,102)	-	-
- futures	(11,989)	(347)	-	-
<b>Derivatives designated as fair value hedge</b>				
- interest rate swaps	(39,567)	(35,321)	-	-
- futures	(12,694)	(5,147)	-	-
<b>Total derivative financial instruments liabilities</b>	<b>(650,167)</b>	<b>(583,206)</b>	<b>-</b>	<b>-</b>

**22 CLIENTS' AND BROKERS' BALANCES**

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM179,167,000 (2008: RM177,535,000)

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**23 PAYABLES AND OTHER LIABILITIES**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Trade payables	460,349	422,675	-	-
Amount due to:				
- subsidiary companies	-	-	100	665
- other related companies	4,451	623	-	-
Other payables and accrued liabilities	860,213	869,505	4,394	5,769
Interest payable	263,239	206,169	1,821	3,769
Post employment benefits obligation				
- defined contribution plan	5,982	6,037	76	76
Zakat	55	79	-	-
Profit equalisation reserve	4,691	4,284	-	-
General and family takaful funds (Note (a))	217,337	163,869	-	-
Loan advance payment	802,123	525,480	-	-
Derivative financial instruments (Note 21)	650,167	583,206	-	-
	3,268,607	2,781,927	6,391	10,279

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

**(a) General and family takaful funds**

	The Group 2009		
	General Takaful Fund RM'000	Family Takaful Fund RM'000	Total RM'000
Payables	1,884	913	2,797
Outstanding claims	279	498	777
Investment-linked business liabilities	-	4,704	4,704
	2,163	6,115	8,278
General takaful and family takaful participants' funds	1,483	207,576	209,059
	3,646	213,691	217,337
	2008		
	General Takaful Fund RM'000	Family Takaful Fund RM'000	Total RM'000
Payables	528	1,210	1,738
Investment-linked business liabilities	-	1,494	1,494
	528	2,704	3,232
General takaful and family takaful participants' funds	223	160,414	160,637
	751	163,118	163,869

Notes to the Financial Statements  
for the financial year ended 30 June 2009

24 BORROWINGS

	Note	The Group		The Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Revolving credit	(i)	177,900	25,600	31,000	1,000
Commercial papers	(ii)	379,228	214,714	379,228	214,714
Medium term notes	(ii)	40,000	210,000	40,000	210,000
		597,128	450,314	450,228	425,714
Repayment of revolving credit and syndicated loans					
- less than one year		177,900	25,600	31,000	1,000
Repayment of commercial papers					
- less than one year		379,228	214,714	379,228	214,714
Repayment of medium term notes					
- less than one year		40,000	170,000	40,000	170,000
- one to two years		-	40,000	-	40,000
		597,128	450,314	450,228	425,714

- (i) The revolving credit facilities carry interest rates ranging from 2.90% to 4.70% (2008: 4.00% to 4.18%) per annum.

The bank loans are unsecured and repayable within 12 months.

- (ii) On 9 July 2002, the Company entered into a 7 years RM300 million Commercial Papers ("CPs") and Medium Term Notes ("MTNs") Programme which were constituted by a Trust Deed between the Company and AmTrustee Berhad as trustee.

On 3 August 2007, the Company entered into a 7 years RM800 million CPs and MTNs Programme which were constituted by a Trust Deed between the Company and AmTrustee Berhad as trustee.

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

The MTNs are issued at par and the issue price is calculated in accordance with the FAST Rules, at the tenure of one (1) to seven (7) years as the Company may select. The RM300 million MTNs carry interest rates of 7.55% per annum and the RM800 million CPs carry interest rates ranging from 2.30% to 3.30%.

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

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**25 SUBORDINATED OBLIGATIONS**

	The Group	
	2009	2008
	RM'000	RM'000
Subordinated obligations, at par	749,250	749,250
Fair value changes arising from fair value hedges	-	18,250
Foreign exchange translations	(45,218)	(95,096)
	704,032	672,404
Add: Unamortised fair value charges arising from terminated fair value hedge	25,766	-
Less: Unaccreted discounts	(232)	(654)
	729,566	671,750

Subordinated obligations are unsecured and are redeemable at par upon maturity on 3 August 2015, or at the option of HLB subject to prior written approval of BNM, on 3 August 2010 at the principal amount plus accrued interest (if applicable).

The bonds bear an interest of 5.25% per annum, payable semi-annually, with a callable step-up in 2010, at a rate per annum equal to the US Treasury Rate plus 2.72%.

**26 INSURANCE FUNDS**

	The Group	
	2009	2008
	RM'000	RM'000
Unearned premium reserves	96,333	134,594
Life policyholders' fund	4,115,619	3,731,589
Life investment-linked unitholders' fund	365,940	314,341
	4,577,892	4,180,524

(a) Based on the actuarial valuation of the fund made up to 30 June 2009, the Actuary was satisfied that the assets available in the Life fund are sufficient to meet its long term liabilities to policyholders.

Notes to the Financial Statements  
for the financial year ended 30 June 2009

26 INSURANCE FUNDS *cont'd*

(b) Results of the actuarial valuation of Life policyholders' fund as at 30 June 2009 is as follows:

	The Group	
	2009 RM'000	2008 RM'000
<b>Actuarial liabilities</b>		
At 1 July	3,193,468	2,952,599
Add:		
Increase in policy reserves	180,111	93,490
Bonus allocated to participating policyholders (including interim bonus) - from normal surplus	159,713	147,379
At 30 June	3,533,292	3,193,468
<b>Unallocated surplus</b>		
At 1 July	538,121	664,240
Add:		
Surplus arising during the financial year	260,919	76,260
Bonus allocated to policyholders (including interim bonus) - from normal surplus	(159,713)	(147,379)
Transfer to income statement	(57,000)	(55,000)
At 30 June	582,327	538,121
Life policyholders' fund at 30 June		
Actuarial liabilities	3,533,292	3,193,468
Unallocated surplus	582,327	538,121
Life policyholders' fund	4,115,619	3,731,589



Notes to the Financial Statements  
for the financial year ended 30 June 2009

26 INSURANCE FUNDS *cont'd*

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

	The Group	
	2009 RM'000	2008 RM'000
Net premium income	862,335	731,211
Benefit and claims incurred	(390,832)	(326,923)
Commissions and agency expenses	(151,777)	(130,641)
Management expenses	(68,765)	(64,608)
Investment income	224,747	187,231
Surplus from operations before taxation	475,708	396,270
Taxation	(14,606)	(14,453)
Surplus after taxation	461,102	381,817
Increase in investment-linked fund	(51,599)	(29,127)
Others	31,527	(182,940)
	441,030	169,750
Life policyholders' fund at 1 July	3,731,589	3,616,839
Transfer to income statement	(57,000)	(55,000)
Life policyholders' fund at 30 June	4,115,619	3,731,589

**The Life policyholders' fund is arrived at after charging**

HLA's auditors remuneration	102	71
Depreciation of property and equipment	5,900	5,406
Amortisation of intangible assets	4,541	5,209
Impairment loss on quoted investments	4,394	37,145
Directors' fees	182	183
Rental expense	19	3,868
Provision for staff retirement benefits	80	76
Amortisation of premium of Malaysian Government securities	-	1,437

**And crediting**

Gross dividends from		
- shares quoted in Malaysia	28,295	33,391
- share quoted outside Malaysia	75	-
Interest income from:		
- Malaysian Government securities	17,180	17,705
- fixed and call deposits	39,418	27,638
- specified debt securities	-	2,379
- Islamic debt securities	27,192	22,147
- policy and premium loans	38,108	19,522
- unquoted bonds and debentures	78,036	59,795
Gain on sale of property and equipment	-	27
Gain on sale of investments	9,415	41,221
Rental income	16,093	15,539
Accretion of discount, net of amortisation of premium	15,080	5,004
Others (ICULS)	13,902	20

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**27 SHARE CAPITAL**

	The Group and Company	
	2009	2008
	RM'000	RM'000
<b>Authorised</b>		
Ordinary shares of RM1.00 each	2,000,000	2,000,000
<b>Issued and fully paid capital</b>		
Ordinary shares of RM1.00 each		
At 1 July	1,052,768	1,052,451
Issued pursuant to exercise of warrants	-	317
At 30 June	1,052,768	1,052,768

These were no new shares issued by the Company during the financial year ended 30 June 2009.

**28 RESERVES**

		The Group		The Company	
		2009	2008	2009	2008
		RM'000	RM'000	RM'000	RM'000
Retained profits	(a)	2,179,261	1,767,888	558,693	538,123
Share premium	(b)	117,229	117,229	117,229	117,229
Statutory reserve	(c)	1,141,486	1,099,947	-	-
Fair value reserve	(d)	(19,429)	(11,256)	-	-
Other capital reserve	(e)	133,258	133,258	18,484	18,484
Share options reserve	(f)	23,229	8,481	10,208	5,762
Exchange fluctuation reserve	(g)	20,413	12,721	-	-
		3,595,447	3,128,268	704,614	679,598

- (a) Under the single-tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

However, companies who have not utilised fully their Section 108 credits balances up to 31 December 2007 may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013 whichever is earlier unless they opt to disregard the Section 108 credits under the special transitional provisions of the Finance Act 2007 and pay single-tier dividends. As at 30 June 2009, subject to agreement with the Inland Revenue Board, the Company has tax credits under Section 108 of the Income Tax Act, 1967 to frank payment of dividends out of the Company's retained profits to the extent of RM465,122,000 (2008: RM374,782,000). In addition, the Company has tax exempt income of approximately RM48,847,000 (2008: RM48,847,000) available for future distribution of tax exempt dividends.

- (b) Share premium is used to record premium arising from new shares issued by the Company.
- (c) The statutory reserve is maintained by the banking subsidiaries in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividend.

**Notes to the Financial Statements**  
for the financial year ended 30 June 2009

**28 RESERVES *cont'd***

- (d) The fair value reserve consists of the unrealised gains or losses arising from change in the fair values of investments classified as available-for-sale securities. The gains or losses are transferred to the income statement upon derecognition or impairment of the investment.

Movement of the fair value reserve is as follows:

	The Group	
	2009 RM'000	2008 RM'000
At 1 July	(11,256)	15,394
Net gain/(loss) from change in fair value	20,237	(15,727)
Net gain transferred to net profit on disposal and impairment	(33,886)	(14,222)
Deferred taxation	6,158	3,299
Acquisition of associated company	(682)	-
Net change in fair value reserve	(8,173)	(26,650)
	(19,429)	(11,256)

- (e) The capital reserve of the Group arose from the capitalisation of bonus issue and gain on disposal of subsidiary company and assets in certain subsidiary companies in previous years. The capital reserve of the Company arose from gains on disposal of subsidiary companies and investments and proceeds on issuance of replacement warrants used for bond redemption in previous years.
- (f) The share options reserve arose from the employee share option schemes granted to eligible executives of the Company. Terms of the share options and movements in the number of shares held by Trustee for ESOS Scheme are disclosed in Note 48 to the financial statements.
- (g) Exchange differences arising on translation of foreign subsidiary and associated companies are taken to exchange fluctuation reserve.

**29 TREASURY SHARES**

**Treasury shares for ESOS scheme**

The Company has entered into a Trust for ESOS purposes established via the signing of a Trust Deed on 23 January 2006 with AmTrustee Berhad in conjunction with the establishment of Executive Share Option Schemes ("ESOS"). The trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company's shares from the open market for the purposes of this trust.

FRS132 – Financial Instruments: Presentation and Disclosure requires that if an entity reacquires its own equity instruments, those instruments shall be deducted from equity and are not recognised as a financial asset regardless of the reason for which they are reacquired.

In accordance with FRS 132 – Financial Instruments: Presentation and Disclosure, the shares purchased for the benefit of the ESOS holders are recorded as "Treasury Shares for ESOS Scheme" in the equity on the balance sheet. As at 30 June 2009, the number of shares held by the appointed trustee was 14,461,408 shares (2008: 15,602,508) at an average price of RM4.45 per share (2008: RM4.57). The total consideration paid, including transaction costs was RM65,750,000 (2008: RM71,260,000).

Pursuant to the insurance subsidiary company's ESOS scheme, the insurance subsidiary company also held 2,768,992 (2008: 538,592) units of the Company's shares at an average price of RM4.49 (2008: RM3.56) per share with total consideration paid, including transaction costs of RM12,421,000 (2008: RM1,916,000), which have been classified as treasury shares held for ESOS at the Group level.

The main features of the ESOS are disclosed in the Director's Report and details of the ESOS are disclosed in Note 48 to the financial statements.

Notes to the Financial Statements  
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**30 INTEREST INCOME**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	1,704,732	1,673,909	-	-
- Recoveries from non-performing loans, advances and financing	111,659	126,192	-	-
Money at call and deposit placements with financial institutions	676,498	798,827	233	534
Securities purchased under resale agreements	1,088	62,371	-	-
Securities held at fair value through profit or loss	22,078	35,241	-	-
Available-for-sale securities	103,132	120,618	-	-
Held-to-maturity securities	145,010	35,982	-	-
Others	2,845	7,251	1,536	125
	2,767,042	2,860,391	1,769	659
Accretion of discounts less amortisation of premium	203,473	216,907	-	-
Net interest suspended	(14,903)	(8,457)	-	-
	188,570	208,450	-	-
	2,955,612	3,068,841	1,769	659

**31 INTEREST EXPENSE**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Deposits and placements of banks and other financial institutions	71,274	112,620	-	-
Deposits from other customers	1,460,029	1,507,166	-	-
Subordinated obligations	36,631	34,201	-	-
Borrowings	21,212	30,351	17,010	18,365
Others	3,199	3,192	1,309	38
	1,592,345	1,687,530	18,319	18,403

**32 INCOME FROM ISLAMIC BANKING BUSINESS**

	The Group	
	2009 RM'000	2008 RM'000
Income derived from investment of depositors' funds and others	322,131	289,720
Income derived from investment of shareholders' funds	41,410	39,411
Profit equalisation reserve	(407)	(1,720)
Total distributable income	363,134	327,411
Income attributable to depositors	(186,793)	(167,367)
Total net income	176,341	160,044

Notes to the Financial Statements  
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**33 NON-INTEREST INCOME**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Insurance income	147,325	153,446	-	-
Brokerage income	34,692	45,043	-	-
<b>Fee income</b>				
Commissions	55,566	66,998	-	-
Service charges and fees	20,448	37,603	-	-
Guarantee fees	5,217	5,674	-	-
Credit card related fees	125,995	94,493	-	-
Corporate advisory fees	3,926	41,572	-	-
Commitment fees	12,819	13,260	-	-
Unit trust fee income	19,501	22,351	-	-
Other fee income	40,816	38,142	6,703	5,245
	284,288	320,093	6,703	5,245
<b>Net income from securities</b>				
Net realised gain/(loss) from sale/redemption of securities portfolio:				
- securities held at fair value through profit or loss	4,264	17,725	(8,108)	(21)
- available-for-sale securities	28,505	15,166	-	-
- held-to-maturity securities	316	1,966	-	-
Dividend income from:				
- securities held at fair value through profit or loss	2,663	7,236	686	408
- available-for-sale securities	5,738	4,734	-	-
- held-to-maturity securities	3,593	3,111	-	-
- subsidiary companies	-	-	278,822	263,007
Net unrealised gain/(loss) on revaluation of securities held at fair value through profit or loss and derivatives	15,210	(3,157)	6,317	-
Net realised loss on fair value changes arising from fair value hedges	(14,851)	(30,856)	-	-
Net unrealised gain on fair value changes arising from fair value hedges	15,858	7,883	-	-
	61,296	23,808	277,717	263,394
<b>Other income</b>				
Foreign exchange gain	171,181	113,485	-	-
Rental income	456	504	-	-
Gain on sale of property and equipment	1,428	1,839	51	-
Other non-operating income	29,669	25,909	2,036	346
	202,734	141,737	2,087	346
	730,335	684,127	286,507	268,985

Notes to the Financial Statements  
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**34 OVERHEAD EXPENSES**

	The Group		The Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Personnel costs	514,240	500,451	12,875	13,580
Establishment costs	219,289	217,190	2,095	1,991
Marketing expenses	129,461	127,740	-	-
Administration and general expenses	110,424	99,766	2,495	1,874
	973,414	945,147	17,465	17,445

(i) Personnel costs comprise the following:

	The Group		The Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Salaries, bonus and allowances	462,202	454,355	7,999	8,626
Other employees benefits	52,038	46,096	4,876	4,954
	514,240	500,451	12,875	13,580

(ii) Establishment costs comprise the following:

	The Group		The Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Depreciation of property and equipment	51,460	50,759	845	982
Amortisation of intangible assets	18,116	18,680	126	23
Rental of premises	49,718	48,265	675	680
Information technology expenses	52,516	49,942	-	-
Others	47,479	49,544	449	306
	219,289	217,190	2,095	1,991

(iii) Marketing expenses comprise the following:

	The Group		The Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Advertisement and publicity	66,023	62,515	-	-
Handling fees	11,250	16,781	-	-
Credit card related fees	35,922	27,829	-	-
Others	16,266	20,615	-	-
	129,461	127,740	-	-

Notes to the Financial Statements  
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**34 OVERHEAD EXPENSES** *cont'd*

(iv) Administration and general expenses comprise the following:

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Teletransmission expenses	10,829	10,452	41	44
Stationery and printing expenses	13,994	18,230	45	55
Professional fees	43,097	35,678	1,623	964
Insurance fees	7,353	10,623	7	5
Stamp, postage and courier	8,682	10,405	6	6
Others	26,469	14,378	773	800
	110,424	99,766	2,495	1,874

The above expenditure includes the following statutory disclosures:

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Directors' remuneration (Note 36)	9,573	9,050	3,951	3,968
Rental of premises	49,718	48,265	675	680
Hire of equipment	101	150	-	-
Auditors' remuneration:				
(i) PwC Malaysian firm				
- statutory audit	1,114	538	58	58
- other fees	514	160	5	5
(ii) PwC overseas affiliated firms				
- statutory audit	187	116	-	-
- other fees	308	400	-	-
(iii) Other auditors	5	444	-	-
Depreciation of property and equipment	51,460	50,759	845	982
Amortisation of intangible assets	18,116	18,680	126	23
Amortisation of prepaid lease payments	127	127	-	-
Gain/(loss) on sale of property and equipment	(1,428)	(1,839)	(51)	21
Intangible assets written off	30	87	-	-
Options charge arising from ESOS	14,748	7,329	4,446	4,610

Notes to the Financial Statements  
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**35 ALLOWANCES FOR LOSSES ON LOANS, ADVANCES, FINANCING AND OTHER LOSSES**

	The Group	
	2009 RM'000	2008 RM'000
<b>Allowance for losses on loans, advances and financing</b>		
(a) Specific allowance		
- made during the financial year	317,495	298,603
- written back	(73,641)	(105,139)
(b) General allowance		
- made during the financial year	17,892	44,443
	261,746	237,907
<b>Allowance for losses on clients' and brokers' balances</b>		
(a) Specific allowance		
- made during the financial year	-	53
- written back	(2,600)	(487)
(b) General allowance		
- made during the financial year	43	124
- written back	(118)	-
	(2,675)	(310)
<b>Bad debts on loans, advances and financing</b>		
- written off	9,015	7,515
- recovered	(112,836)	(86,895)
	(103,821)	(79,380)
	155,250	158,217

The banking subsidiary group uses a "Loss Given Default" ("LGD") approach to arrive at the level of specific allowances required for the following two categories of non-performing loans (NPLs) secured on properties:

- (i) NPLs aged 5 to 7 years and
- (ii) NPLs aged more than 7 years

The LGD data is derived from the historical data of the banking subsidiary group for NPLs that have been successfully resolved and is used to determine the percentage reduction of the force sale value or valuation for the collateral of the said NPLs.



**Notes to the Financial Statements  
for the financial year ended 30 June 2009**

**36 DIRECTORS' REMUNERATION**

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

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>Executive Directors</b>				
- fees	790	760	82	125
- salary and bonus	3,086	3,133	3,086	3,133
- estimated money value for benefits-in-kind	58	65	58	65
- defined contribution retirement plan	370	373	370	373
<b>Non-Executive Directors</b>				
- fees	584	462	355	272
- other remuneration	4,685	4,257	-	-
	9,573	9,050	3,951	3,968

The remuneration including benefits-in-kind attributable to the President & Chief Executive Officer of the Company during the financial year amounted to RM3,177,245 (2008: RM3,273,789) and RM2,934,320 (2008: RM3,071,289) for the Group and the Company respectively.

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

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

**37 TAXATION AND ZAKAT**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Malaysian income tax	276,069	304,214	53,631	54,421
Over provision in prior years	(51,839)	(3,149)	(817)	-
Transfer to deferred taxation (Note 13)				
- current year	(68,423)	(6,143)	-	-
- under/(over) provision in prior years	32,016	(1,089)	-	-
	(36,407)	(7,232)	-	-
Taxation	187,823	293,833	52,814	54,421
Zakat	54	-	-	-
	187,877	293,833	52,814	54,421

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**37 TAXATION AND ZAKAT** *cont'd*

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

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Profit before taxation and zakat	1,150,204	1,120,165	252,492	233,796
Tax calculated at a rate of 25% (2008: 26%)	287,551	291,243	63,123	60,787
<b>Tax effects of</b>				
- Differences in tax rate of foreign inward and offshore insurance	(803)	(1,424)	-	-
- Change in tax rates	-	5,262	-	-
- Income not subject to tax	(41,113)	(10,891)	(11,013)	(7,800)
- Expenses not deductible for tax purposes	21,544	14,630	1,521	1,434
- Previously unrecognised tax losses/capital allowances	(57,231)	(739)	-	-
- Tax savings from utilisation of brought forward tax losses	(2,302)	(10)	-	-
- Over provision (net of deferred tax effects)	(19,823)	(4,238)	(817)	-
<b>Taxation</b>	<b>187,823</b>	<b>293,833</b>	<b>52,814</b>	<b>54,421</b>

	The Group	
	2009 RM'000	2008 RM'000
<b>Tax losses</b>		
Tax losses for which the related tax credit has not been recognised in the financial statements	59,488	289,831
<b>Capital allowance</b>		
Deductible temporary differences and unutilised capital allowances for which the related tax credit has not been recognised in the financial statements	2,049	2,231

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

**Notes to the Financial Statements**  
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**38 EARNINGS PER SHARE**

**Basic earnings per share**

Basic earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Weighted average number of ordinary shares ('000)	1,035,538	1,036,627	1,038,307	1,037,165
Net profit attributable to equity holders of the Company	632,020	548,682	199,678	179,375
Basic earnings per share (sen)	61.0	52.9	19.2	17.3

**Diluted earnings per share**

There is no diluted earnings per share as the Group and the Company have no category of dilutive potential ordinary shares.

**39 DIVIDENDS**

Dividends recognised as distribution to ordinary equity holders of the Company:

	The Group and Company	
	2009 RM'000	2008 RM'000
First interim dividend of 9 sen per share less income tax at 25% (2008: 9 sen per share less income tax at 26%)	70,086	69,115
Second interim dividend of 14 sen per share less income tax at 25% (2008: 14 sen per share less income tax at 26%)	109,022	107,749
	179,108	176,864

The dividends are paid on outstanding share capital excluding the treasury shares held for ESOS.

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**40 COMMITMENTS AND CONTINGENCIES**

**(a) Banking subsidiary companies related commitments and contingencies**

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

The commitments and contingencies constitute are as follows:

	The Group					
	2009			2008		
	Principal RM'000	Credit equivalent RM'000	Risk weighted amount RM'000	Principal RM'000	Credit equivalent RM'000	Risk weighted amount RM'000
Direct credit substitutes	217,061	217,061	200,263	207,396	207,396	193,849
Certain transaction related contingent items	247,102	123,551	110,598	287,933	143,966	129,875
Short-term self- liquidating trade-related contingencies	578,754	115,750	113,434	741,691	148,338	142,375
Irrevocable commitment to extend credit:						
- maturity more than one year	-	-	-	4,279,447	2,139,724	1,743,385
- maturity less than one year	-	-	-	13,458,683	2,691,736	2,189,391
Commitments that are unconditionally cancellable at any time without prior notice <sup>#</sup>	19,134,149	-	-	-	-	-
Foreign exchange related contracts:						
- less than one year	16,955,284	349,792	191,764	20,194,529	395,392	252,097
- one year to less than five years	3,421,043	485,318	274,098	3,531,178	543,356	310,593
- five years and above	298,668	62,884	31,442	298,668	77,869	38,935
Interest rate related contracts:						
- less than one year	9,848,229	46,175	23,223	31,317,316	361,900	143,156
- one year to less than five years	26,247,637	996,737	504,359	6,992,481	45,832	20,771
- five years and above	1,401,880	180,913	90,457	30,000	4,032	2,016
Equity related contracts:						
- less than one year	96,900	5,814	2,462	151,823	10,211	6,567
- one year to less than five years	150,203	12,016	4,264	150,400	12,032	6,016
	78,596,910	2,596,011	1,546,364	81,641,545	6,781,784	5,179,026

<sup>#</sup> Pursuant to BNM's letter dated 18 March 2009 entitled "Credit conversion factors for uncommitted credit facilities", the Group has applied 0% credit conversion factor ("CCF") on the undrawn portion of credit facilities with original maturity of more than one year upon fulfilling the prescribed conditions. The Group has also applied 0% CCF on the undrawn portion of credit facilities with original maturity of less than one year with no conditions imposed by BNM.

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**40 COMMITMENTS AND CONTINGENCIES** *cont'd*

(a) **Banking subsidiary companies related commitments and contingencies** *cont'd*

	The Company	
	2009	2008
	RM'000	RM'000
Interest rate swaps	250,000	-

The foreign exchange and interest rate related contracts are made up as follows:

	The Group	
	2009	2008
	RM'000	RM'000
<b>Foreign exchange related contracts</b>		
- swaps and forward contracts	15,110,163	18,519,000
- options	1,564,171	1,232,133
- cross currency swap	4,000,661	4,273,242
<b>Interest rate related contracts</b>		
- futures contracts	5,841,386	12,793,305
- interest rate swaps	31,604,160	25,494,292
- cap/floors	50,000	50,000
- swaptions	2,200	2,200
<b>Equity related contracts</b>		
- options	247,103	302,223

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

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

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

The size of each of the five funds was above the minimum of RM1 million as at 30 June 2009.

**41 CAPITAL COMMITMENTS**

	The Group	
	2009	2008
	RM'000	RM'000
Approved and contracted for	73,629	40,677
Approved but not contracted for	85,664	40,485
	159,293	81,162

The capital commitments are in respect to property and equipment.

**Notes to the Financial Statements**  
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**42 LEASE COMMITMENTS**

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

	The Group	
	2009 RM'000	2008 RM'000
Less than one year	5,397	3,742
More than one year but less than five years	7,675	7,358
More than 5 years	394	50

**43 HOLDING COMPANY**

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

**44 CAPITAL ADEQUACY**

BNM guidelines require the banking subsidiaries to maintain a certain minimum level of capital funds against the "risk-weighted" value of assets and certain commitments and contingencies. The capital funds of the banking subsidiaries as at 30 June 2009 met the minimum requirement.

The Group implemented the Basel II - Risk Weighted Assets Computation under the Bank Negara Malaysia's Risk Weighted Capital Adequacy Framework with effect from 1 January 2008.

The Group have adopted the Standardised Approach for credit risk and market risk and Basic Indicator Approach for operational risk computation.

Previous year capital ratios for Hong Leong Investment Bank ("HLIB") are not presented as HLIB became a licensed financial institution effective 22 October 2008.

Notes to the Financial Statements  
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**44 CAPITAL ADEQUACY** *cont'd*

The capital adequacy ratios of the banking subsidiaries are as follows:

	Hong Leong Bank Group		Hong Leong Investment Bank
	2009	2008	2009
	RM'000	RM'000	RM'000
<b>Tier-1 capital</b>			
Paid-up share capital	1,580,107	1,580,107	123,500
Share premium	539,664	539,664	-
Other reserves*	4,339,846	3,683,511	8,325
Minority interest	42,988	43,698	-
Treasury shares	(699,052)	(699,041)	-
Less: Deferred tax assets	(153,613)	(173,153)	(58,192)
Less: Goodwill	-	-	(30,000)
<b>Total Tier-1 capital</b>	<b>5,649,940</b>	<b>4,974,786</b>	<b>43,633</b>
<b>Tier-2 capital</b>			
Subordinated obligations	703,800	653,500	-
Redeemable preference shares	-	-	1,631
Share premium on redeemable preference shares	-	-	142,035
General allowance for bad and doubtful debts	544,823	526,957	1,304
<b>Total Tier-2 capital</b>	<b>1,248,623</b>	<b>1,180,457</b>	<b>144,970</b>
<b>Total eligible Tier-2 capital</b>	<b>1,248,623</b>	<b>1,180,457</b>	<b>43,633</b>
<b>Total capital</b>	<b>6,898,563</b>	<b>6,155,243</b>	<b>87,266</b>
Less: Investment in associated company/subsidiaries	(1,045,285)	-	(588)
Less: Holdings of other banking institutions' capital instruments	-	(31,858)	-
<b>Total capital base</b>	<b>5,853,278</b>	<b>6,123,385</b>	<b>86,678</b>
<b>Capital ratios</b>			
Core capital ratio	15.89%	13.30%	17.59%
Risk-weighted capital ratio	16.47%	16.36%	34.94%
Core capital ratio (net of proposed dividends)	15.42%	12.84%	17.59%
Risk-weighted capital ratio (net of proposed dividends)	15.99%	15.91%	34.94%

\* Fair value reserve has been excluded from the banking subsidiaries' capital base.

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Notes to the Financial Statements  
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**45 SEGMENTAL INFORMATION**

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

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

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

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

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

**Business segments**

The Group comprises the following main business segments:

Commercial banking	- Commercial banking business
Investment banking and asset management	- Investment banking, fund and unit trust management
Insurance	- Life and general insurance and takaful business
Other operations	- Investment holding and provision of management services



Notes to the Financial Statements  
for the financial year ended 30 June 2009

**45 SEGMENTAL INFORMATION** *cont'd*

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

<b>The Group</b>	Commercial banking RM'000	Investment banking and asset management RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ Consolidation adjustment RM'000	Consolidated RM'000
<b>2009</b>						
<b>Revenue</b>						
External sales	2,095,995	58,080	164,661	(20,578)	-	2,298,158
Inter-segment sales	2,977	1,743	2,417	9,983	(17,120)	-
	2,098,972	59,823	167,078	(10,595)	(17,120)	2,298,158
<b>Result</b>						
Segment results	1,032,769	(43,604)	91,563	(29,986)	-	1,050,742
Share of results of associated company						99,462
Profit before taxation and zakat						1,150,204
Taxation and zakat						(187,877)
Net profit for the financial year						962,327
Minority interest						(330,307)
Profit attributable to equity holders of the Company						632,020
<b>Other information</b>						
Segment assets	79,250,929	575,171	6,113,106	95,466	173,407	86,208,079
Other corporate assets						273,671
Total consolidated assets						86,481,750
Segment liabilities	73,627,690	490,984	5,465,718	92,831	(432,650)	79,244,573
Other corporate liabilities						410,228
Total consolidated liabilities						79,654,801
<b>Other significant segment items</b>						
Capital expenditure	79,767	1,931	79,279	351	-	161,328
Amortisation of prepaid lease payments	84	1	42	-	-	127
Depreciation of property and equipment	45,795	1,534	3,286	845	-	51,460
Amortisation of intangible assets	13,302	372	4,316	126	-	18,116
Allowances for losses on loans, advances and financing and other losses	156,714	(1,464)	-	-	-	155,250
Impairment losses	32,934	57,236	367	-	-	90,537

Notes to the Financial Statements  
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45 SEGMENTAL INFORMATION *cont'd*

The Group	Commercial banking RM'000	Investment banking and asset management RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ Consolidation adjustment RM'000	Consolidated RM'000
<b>2008</b>						
<b>Revenue</b>						
External sales	1,990,069	71,396	178,136	(14,119)	-	2,225,482
Inter-segment sales	28,271	2,497	8,116	7,731	(46,615)	-
	2,018,340	73,893	186,252	(6,388)	(46,615)	2,225,482
<b>Result</b>						
Segment results	1,010,042	32,152	103,769	237,605	(263,403)	1,120,165
Profit before taxation and zakat						1,120,165
Taxation and zakat						(293,833)
Net profit for the financial year						826,332
Minority interest						(277,650)
Profit attributable to equity holders of the Company						548,682
<b>Other information</b>						
Segment assets	77,288,052	469,825	5,540,979	45,147	53,208	83,397,211
Other corporate assets						203,972
Total consolidated assets						83,601,183
Segment liabilities	72,327,967	305,062	4,917,968	29,773	(552,990)	77,027,780
Other corporate liabilities						426,000
Total consolidated liabilities						77,453,780
<b>Other significant segment items</b>						
Capital expenditure	108,586	3,031	3,699	1,563	-	116,879
Amortisation of prepaid lease payments	84	-	43	-	-	127
Depreciation of property and equipment	44,775	1,425	8,939	1,026	-	56,165
Amortisation of intangible assets	12,997	166	10,717	51	-	23,931
Allowances for losses on loans, advances and financing	158,527	-	-	-	-	158,527
Impairment losses	1,009	-	944	-	-	1,953

**Notes to the Financial Statements**  
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**46 SIGNIFICANT RELATED PARTY TRANSACTIONS**

**(a) Related parties and relationship**

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

Related parties	Relationship
Hong Leong Company (Malaysia) Berhad ("HLCM")	Ultimate holding company
HLCM Capital Sdn Bhd, Hong Leong Share Registration Services Sdn Bhd, HL Management Co Sdn Bhd and GuoLine Capital Assets Limited ("HLCM Group")	Subsidiary companies of ultimate holding company
Guardian Security Consultants Sdn Bhd ("GSC")	Associated company of ultimate holding company
Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("HLI Group")	Subsidiary and associated companies of ultimate holding company
Hume Industries (Malaysia) Berhad and its subsidiary and associated companies as disclosed in their financial statements ("HIMB Group")	Subsidiary and associated companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements ("GLM Group")	Subsidiary and associated companies of ultimate holding company
Subsidiary companies of the Company as disclosed in Note 11	Subsidiary companies of the Company
Key management personnel	The key management personnel of the Group and the Company consists of: <ul style="list-style-type: none"> <li>- All Directors of the Company</li> <li>- Key management personnel of the Company who are in charge of the HLF Group</li> </ul>
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel  (ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

Notes to the Financial Statements  
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**46 SIGNIFICANT RELATED PARTY TRANSACTIONS** *cont'd*

**(b) Related party transactions**

Transactions with related parties are as follows:

	The Group		
	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
<b>2009</b>			
<b>Income</b>			
Interest on deposits	-	2,349	852
Interest on loans	-	-	128
Brokerage fee received	-	356	149
Insurance premium received	-	15,710	30
Others	-	4,591	-
	-	23,006	1,159
<b>Expenditure</b>			
Rental and maintenance	-	7,919	-
Interest on deposits	-	23,371	-
Management fees	-	14,622	-
Other miscellaneous expenses	-	4,357	36
	-	50,269	36
<b>Amounts due from:</b>			
Insurance premium receivable	-	2,647	-
Credit card	-	-	279
Others	-	90	-
	-	2,737	279
<b>Amounts due to:</b>			
Current account and fixed deposits	335	695,403	92,280
Others	-	1,165	-
	335	696,568	92,280

Notes to the Financial Statements  
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**46 SIGNIFICANT RELATED PARTY TRANSACTIONS** *cont'd*

(b) **Related party transactions** *cont'd*

Transactions with related parties are as follows: *cont'd*

	Parent company RM'000	The Group Other related companies RM'000	Key management personnel RM'000
<b>2008</b>			
<b>Income</b>			
Interest on deposits	-	-	25
Interest on loans	-	-	7
Interest on interbank placement	-	445	-
Brokerage fee received	-	1,788	793
Insurance premium received	-	18,238	45
Others	-	10	25
	-	20,481	895
<b>Expenditure</b>			
Rental and maintenance	-	5,332	-
Insurance premium	-	479	-
Interest on deposits	-	8,538	-
Management fees	-	11,699	-
Other miscellaneous expenses	-	5,649	-
	-	31,697	-
<b>Amounts due from:</b>			
Insurance premium receivable	-	3,227	5
Credit card	-	-	122
Others	-	237	-
	-	3,464	127
<b>Amounts due to:</b>			
Current account and fixed deposits	651	119,311	19,932
Others	-	1,361	-
	651	120,672	19,932

Notes to the Financial Statements  
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**46 SIGNIFICANT RELATED PARTY TRANSACTIONS** *cont'd*

(b) **Related party transactions** *cont'd*

Transactions with related parties are as follows: *cont'd*

	The Company			
	Parent company	Subsidiary companies	Other related companies	Key management personnel
	RM'000	RM'000	RM'000	RM'000
<b>2009</b>				
<b>Income</b>				
Interest on interbank placement	-	1,769	-	-
Management fee	-	6,703	-	-
Others	-	801	-	-
	-	9,273	-	-
<b>Expenditure</b>				
Insurance	-	32	-	-
Management fee	-	-	516	-
	-	32	516	-
<b>Amounts due from:</b>				
Current account	-	287	-	-
	-	287	-	-
<b>2008</b>				
<b>Income</b>				
Interest on interbank placement	-	534	-	-
Management fee	-	5,245	-	-
Others	-	491	-	-
	-	6,270	-	-
<b>Expenditure</b>				
Insurance	-	27	-	-
Management fees	-	-	516	-
	-	27	516	-
<b>Amounts due from:</b>				
Current account and fixed deposits	-	96	-	-
	-	96	-	-

Notes to the Financial Statements  
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**46 SIGNIFICANT RELATED PARTY TRANSACTIONS *cont'd***

**(b) Related party transactions *cont'd***

Transactions with related parties are as follows: *cont'd*

	The Group	
	2009 RM'000	2008 RM'000
The approved limit on loans, advances and financing for key management personnel	-	8,229

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

**(c) Key management personnel**

**Key management compensation**

	The Group		The Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Salaries and other short-term employee benefits	10,464	9,858	4,842	4,776
	Units	Units	Units	Units
Share options balance of the Company	12,000	12,500	12,000	12,500

Included in the above is the Directors' compensation which is disclosed in Note 36.

Loans made to key management personnel of the Group and the Company are on similar terms and conditions generally available to other employees within the Group. No specific allowances were required in 2009 and 2008 for loans made to key management personnel.

**47 FINANCIAL INSTRUMENTS**

**Risk management objectives and policies**

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

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

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

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Notes to the Financial Statements  
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**47 FINANCIAL INSTRUMENTS *cont'd***

**Commercial Banking**

**Integrated Risk Management (“IRM”)**

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

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

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

**Credit Risk Management**

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

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

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

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

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

**Market Risk Management**

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



Notes to the Financial Statements  
for the financial year ended 30 June 2009

**47 FINANCIAL INSTRUMENTS** *cont'd*

**Commercial Banking** *cont'd*

**Market Risk Management** *cont'd*

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

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

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

**Liquidity Risk Management**

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

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

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

**Operational Risk Management**

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

The Banking Group takes a proactive stance on identifying and profiling principal potential operational risks and implementing relevant risk mitigation and contingency procedures.

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

The Banking Group has also set up an Operational Risk Management and Compliance Committee ("ORMCC") comprising members of the Banking Group's senior management to manage its operational risks. The Operational Risk Council intends to minimise bank wide operational risk losses and increase shareholder value in accordance with Basel II standards while ensuring compliance to all regulations and internal policies. Another key role of the Operational Risk Council is to promote awareness of operational risk management within the Banking Group and its customers.

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Notes to the Financial Statements  
for the financial year ended 30 June 2009

**47 FINANCIAL INSTRUMENTS** *cont'd*

**Commercial Banking** *cont'd*

**Operational Risk Management** *cont'd*

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

**Investment Banking**

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

**Market risk**

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

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

**Interest rate risk**

The Investment Banking Group's primary interest rate risk relates to interest-bearing borrowings. The Investment Banking Group has no substantial long term interest-bearing assets as at 30 June 2009 and the investment in financial assets is mainly short term in nature. Short term investments in financial assets are not held for speculative purposes but have been mostly placed in fixed deposits or money markets. It is the Investment Banking Group's practice to ensure that the rates obtained are competitive.

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

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

**Liquidity risk**

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

**Credit risk**

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

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

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

## Notes to the Financial Statements for the financial year ended 30 June 2009

### 47 FINANCIAL INSTRUMENTS *cont'd*

#### **Insurance**

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

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

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

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

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

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

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

#### **Credit risk**

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

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

#### **Interest rate risk**

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

#### **Market risk**

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

#### **Liquidity risk**

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

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(a) Interest/profit rate risk

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

	The Group 2009								
	Non-trading book						Non-interest/ profit rate sensitive	Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
<b>Assets</b>									
Cash and short-term funds	18,740,909	-	-	-	-	759,267	-	19,500,176	
Deposits and placements with banks and other financial institutions	-	4,650,864	846,035	167,870	62,000	49	-	5,726,818	
Securities held at fair value through profit or loss	-	-	-	-	-	-	7,092,273	7,092,273	
Available-for-sale securities	185,810	367,370	388,403	4,060,319	1,573,577	504,297 *	-	7,079,776	
Held-to-maturity securities	3,889,641	464,024	264,532	1,645,005	273,899	29,678 *	-	6,566,779	
Loans, advances and financing									
- performing	28,688,518	93,937	262,267	3,277,428	3,249,872	(538,996) ^	-	35,033,026	
- non performing	-	-	-	-	-	465,240 ^	-	465,240	
Clients' and brokers' balances	-	-	-	-	-	220,152	-	220,152	
Other receivables	-	-	-	-	-	1,929,616	-	1,929,616	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	368,564	-	368,564	
Tax recoverable	-	-	-	-	-	12,056	-	12,056	
Investment in associated company	-	-	-	-	-	1,045,285	-	1,045,285	
Deferred tax assets	-	-	-	-	-	215,179	-	215,179	
Prepaid lease payments	-	-	-	-	-	10,123	-	10,123	
Property and equipment	-	-	-	-	-	602,362	-	602,362	
Investment properties	-	-	-	-	-	1,600	-	1,600	
Goodwill arising from consolidation	-	-	-	-	-	572,265	-	572,265	
Intangible assets	-	-	-	-	-	40,460	-	40,460	
<b>Total assets</b>	<b>51,504,878</b>	<b>5,576,195</b>	<b>1,761,237</b>	<b>9,150,622</b>	<b>5,159,348</b>	<b>6,237,197</b>	<b>7,092,273</b>	<b>86,481,750</b>	

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(a) Interest/profit rate risk *cont'd*

	The Group 2009							Trading book RM'000	Total RM'000
	← Non-trading book →								
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- interest/ profit rate sensitive RM'000			
<b>Liabilities</b>									
Deposits from customers	36,973,828	9,445,529	13,612,035	744,253	-	6,486,441	-	67,262,086	
Deposits and placements of banks and other financial institutions	2,002,751	407,394	1,477	-	-	2,357	-	2,413,979	
Bills and acceptance payable	576	4,366	7,476	-	-	238,968	-	251,386	
Clients' and brokers' balances	-	-	-	-	-	279,029	-	279,029	
Payables and other liabilities	-	-	-	-	-	3,268,607	-	3,268,607	
Provision for claims	-	-	-	-	-	201,424	-	201,424	
Provision for taxation	-	-	-	-	-	73,704	-	73,704	
<b>Borrowings</b>									
- Bank loans	146,900	-	31,000	-	-	-	-	177,900	
- Commercial paper	249,757	129,471	-	-	-	-	-	379,228	
- Medium term notes	40,000	-	-	-	-	-	-	40,000	
Subordinated obligations	-	-	-	729,566	-	-	-	729,566	
Insurance funds	-	-	-	-	-	4,577,892	-	4,577,892	
<b>Total liabilities</b>	<b>39,413,812</b>	<b>9,986,760</b>	<b>13,651,988</b>	<b>1,473,819</b>	<b>-</b>	<b>15,128,422</b>	<b>-</b>	<b>79,654,801</b>	
<b>Total interest rate sensitivity gap</b>	<b>12,091,066</b>	<b>(4,410,565)</b>	<b>(11,890,751)</b>	<b>7,676,803</b>	<b>5,159,348</b>				

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(a) Interest/profit rate risk *cont'd*

	The Group 2008								
	Non-trading book						Non-interest/ profit rate sensitive	Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
<b>Assets</b>									
Cash and short-term funds	23,179,599	-	-	-	-	276,561	-	23,456,160	
Deposits and placements with banks and other financial institutions	-	1,494,365	696,771	81,670	20,000	-	-	2,292,806	
Securities purchased under resale agreements	972,742	-	-	-	-	-	-	972,742	
Securities held at fair value through profit or loss	-	-	-	-	-	-	4,877,785	4,877,785	
Available-for-sale securities	457,189	858,631	843,665	3,851,996	1,970,332	458,033 *	-	8,439,846	
Held-to-maturity securities	500,511	1,150,026	83,180	1,122,264	275,939	29,898 *	-	3,161,818	
Loans, advances and financing									
- performing	27,046,861	495,560	1,032,041	3,461,817	3,101,315	(519,506) ^	-	34,618,088	
- non performing	-	-	-	-	-	472,548 ^	-	472,548	
Clients' and brokers' balances	-	-	-	-	-	202,187	-	202,187	
Other receivables	-	-	-	-	-	2,498,301	-	2,498,301	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,315,464	-	1,315,464	
Tax recoverable	-	-	-	-	-	13,024	-	13,024	
Deferred tax assets	-	-	-	-	-	172,671	-	172,671	
Prepaid lease payments	-	-	-	-	-	9,117	-	9,117	
Property and equipment	-	-	-	-	-	508,466	-	508,466	
Investment properties	-	-	-	-	-	1,600	-	1,600	
Goodwill arising from consolidation	-	-	-	-	-	536,135	-	536,135	
Intangible assets	-	-	-	-	-	52,425	-	52,425	
<b>Total assets</b>	<b>52,156,902</b>	<b>3,998,582</b>	<b>2,655,657</b>	<b>8,517,747</b>	<b>5,367,586</b>	<b>6,026,924</b>	<b>4,877,785</b>	<b>83,601,183</b>	

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(a) Interest/profit rate risk *cont'd*

	The Group 2008								
	Non-trading book						Non- interest/ profit rate sensitive	Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	RM'000			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Liabilities</b>									
Deposits from customers	35,833,479	6,602,222	13,749,194	939,145	-	4,937,485	-	62,061,525	
Deposits and placements of banks and other financial institutions	5,530,305	776,830	58,107	-	-	7,334	-	6,372,576	
Bills and acceptance payable	17,794	61,638	39,855	-	-	291,896	-	411,183	
Clients' and brokers' balances	-	-	-	-	-	233,817	-	233,817	
Payables and other liabilities	-	-	-	-	-	2,781,927	-	2,781,927	
Provision for claims	-	-	-	-	-	199,086	-	199,086	
Provision for taxation	-	-	-	-	-	91,078	-	91,078	
Borrowings									
- Bank loans	25,600	-	-	-	-	-	-	25,600	
- Medium term notes	-	70,000	100,000	40,000	-	-	-	210,000	
- Commercial paper	214,714	-	-	-	-	-	-	214,714	
Subordinated obligations	-	-	-	671,750	-	-	-	671,750	
Insurance funds	-	-	-	-	-	4,180,524	-	4,180,524	
<b>Total liabilities</b>	<b>41,621,892</b>	<b>7,510,690</b>	<b>13,947,156</b>	<b>1,650,895</b>	<b>-</b>	<b>12,723,147</b>	<b>-</b>	<b>77,453,780</b>	
<b>Total interest rate sensitivity gap</b>	<b>10,535,010</b>	<b>(3,512,108)</b>	<b>(11,291,499)</b>	<b>6,866,852</b>	<b>5,367,586</b>				

\* Allowance for impairment and shares are included under non-interest sensitive component.

^ Includes specific and general allowances amounting to RM876,199,000 (2008: RM872,738,000).

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(a) Interest/profit rate risk *cont'd*

	The Company 2009							Total RM'000
	Non-trading book					Non- interest sensitive RM'000	Trading book RM'000	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000			
<b>Assets</b>								
Cash and short term funds	2,500	-	-	-	-	291	-	2,791
Securities held at fair value through profit or loss	-	-	-	-	-	-	18,950	18,950
Other receivables	-	-	-	-	-	63,753	-	63,753
Tax recoverable	-	-	-	-	-	11,390	-	11,390
Investment in subsidiary companies	-	-	-	-	-	2,048,249	-	2,048,249
Property and equipment	-	-	-	-	-	2,888	-	2,888
Intangible asset	-	-	-	-	-	230	-	230
<b>Total assets</b>	<b>2,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,126,801</b>	<b>18,950</b>	<b>2,148,251</b>
<b>Liabilities</b>								
Payables and other liabilities	-	-	-	-	-	6,391	-	6,391
<b>Borrowings</b>								
- Bank loans	-	-	31,000	-	-	-	-	31,000
- Commercial papers	249,757	129,471	-	-	-	-	-	379,228
- Medium term notes	40,000	-	-	-	-	-	-	40,000
<b>Total liabilities</b>	<b>289,757</b>	<b>129,471</b>	<b>31,000</b>	<b>-</b>	<b>-</b>	<b>6,391</b>	<b>-</b>	<b>456,619</b>
Total interest rate sensitivity gap	(287,257)	(129,471)	(31,000)	-	-	-	-	-



Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(a) Interest/profit rate risk *cont'd*

	The Company 2008							Trading book RM'000	Total RM'000
	Non-trading book					Non- interest sensitive RM'000			
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>Assets</b>									
Cash and short term funds	11,600	-	-	-	-	99	-	11,699	
Other receivables	-	-	-	-	-	20,186	-	20,186	
Tax recoverable	-	-	-	-	-	12,988	-	12,988	
Investment in subsidiary companies	-	-	-	-	-	2,048,349	-	2,048,349	
Property and equipment	-	-	-	-	-	3,525	-	3,525	
Intangible asset	-	-	-	-	-	352	-	352	
<b>Total assets</b>	<b>11,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,085,499</b>	<b>-</b>	<b>2,097,099</b>	
<b>Liabilities</b>									
Payables and other liabilities	-	-	-	-	-	10,279	-	10,279	
Borrowings									
- Bank loans	1,000	-	-	-	-	-	-	1,000	
- Commercial papers	214,714	-	-	-	-	-	-	214,714	
- Medium term notes	-	70,000	100,000	40,000	-	-	-	210,000	
<b>Total liabilities</b>	<b>215,714</b>	<b>70,000</b>	<b>100,000</b>	<b>40,000</b>	<b>-</b>	<b>10,279</b>	<b>-</b>	<b>435,993</b>	
<b>Total interest rate sensitivity gap</b>	<b>(204,114)</b>	<b>(70,000)</b>	<b>(100,000)</b>	<b>(40,000)</b>	<b>-</b>				

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(a) Interest/profit rate risk *cont'd*

The table below summarises the effective average interest rates by major currencies for each class of financial asset and financial liabilities.

	The Group			
	2009		2008	
	RM %	USD %	RM %	USD %
<b>Financial assets</b>				
Cash and short term funds	3.4	1.4	3.8	3.1
Securities purchased under resale agreement	-	-	3.5	-
Deposits and placement with banks and other financial institutions	3.1	1.4	3.8	3.1
Securities held at fair value through profit and loss	3.7	-	3.8	-
Available-for-sale securities	4.5	3.3	4.5	4.9
Held-to-maturity securities	3.6	-	4.1	-
Loans, advances and financing	6.4	1.5	6.4	3.0
<b>Financial liabilities</b>				
Deposits from customers	2.7	5.2	3.0	3.8
Deposits and placements of banks and other financial institutions	3.0	0.5	3.5	3.3
Bills and acceptance payable	3.5	-	3.6	-
Borrowings				
- Bank loans	3.3	-	4.5	-
- Commercial papers	2.7	-	3.6	-
- Medium term notes	7.6	-	5.6	-
Subordinated obligations	-	5.2	-	5.2

	The Company			
	2009		2008	
	RM %	USD %	RM %	USD %
<b>Financial assets</b>				
Cash and short term funds	2.0	-	3.5	-
<b>Financial liabilities</b>				
Borrowings				
- Bank loans	3.5	-	4.1	-
- Commercial paper	2.7	-	3.6	-
- Medium term notes	7.6	-	5.6	-

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(b) Credit risk

The following table sets out the credit risk concentration of the Group by classes of financial assets:

	The Group 2009										
	Short term funds and placements with financial institutions	Securities held at fair value through profit or loss <sup>+</sup>	Available-for-sale securities <sup>*</sup>	Held-to-maturity securities <sup>^</sup>	Loans, advances and financing <sup>#</sup>	Clients' and brokers' balances	Other assets	Statutory deposits with Bank Negara Malaysia	On-balance sheet total	Treasury related commitments and contingencies	Credit related commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	-	4,973	616,331	-	143	-	621,447	95,250	490,592
Mining and quarrying	-	-	-	-	33,466	-	-	-	33,466	-	13,035
Manufacturing	-	-	106,965	1,620	2,623,573	-	-	-	2,732,158	464,868	3,262,276
Electricity, gas and water	-	-	157,459	103,794	51,243	-	816	-	313,312	48,773	-
Construction	-	-	19,877	480	682,297	-	-	-	702,654	-	403,473
Real estate	-	13,119	-	-	-	-	-	-	13,119	-	-
General commerce	-	-	-	72,095	3,065,175	-	-	-	3,137,270	-	2,705,189
Transport, storage and communications	-	1,765	128,527	17,289	241,690	-	349	-	389,620	-	139,549
Finance, insurance and business services	6,544,182	4,727,858	2,393,470	4,494,038	2,525,581	-	32,236	-	20,723,387	57,707,574	835,747
Government and government agencies	18,682,812	2,343,730	3,373,573	1,775,753	-	-	73,030	368,564	26,617,462	-	-
Purchase of securities	-	-	-	-	67,994	220,152	-	-	288,146	-	327,475
Education, health and others	-	-	-	-	293,015	-	-	-	293,015	-	-
Household	-	-	-	-	24,807,597	-	532	-	24,808,129	-	11,712,504
Others	-	-	472,446	69,159	966,111	-	5,131	-	1,512,847	103,379	287,226
	25,226,994	7,086,472	6,652,317	6,539,201	35,974,073	220,152	112,237	368,564	82,186,032	58,419,844	20,177,066

<sup>+</sup> Excludes equity instruments amounting to RM5,801,000

<sup>\*</sup> Excludes equity instruments amounting to RM427,459,000

<sup>^</sup> Excludes equity instrument (net of impairment losses) amounting to RM27,578,000

<sup>#</sup> Excludes general allowances and net fair value gain arising from fair value hedges amounting to RM546,080,000 and RM70,273,000 respectively

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(b) Credit risk *cont'd*

The following table sets out the credit risk concentration of the Group by classes of financial assets:

	The Group 2008										
	Short term funds and placements with financial institutions	Securities held at fair value through profit or loss <sup>+</sup>	Available-for-sale securities <sup>*</sup>	Held-to-maturity securities <sup>^</sup>	Loans, advances and financing <sup>#</sup>	Clients' and brokers' balances	Other assets	Statutory deposits with Bank Negara Malaysia	On-balance sheet total	Treasury related commitments and contingencies	Credit related commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	-	9,988	509,271	-	172	-	519,431	8,709	457,749
Mining and quarrying	-	-	-	-	27,087	-	-	-	27,087	238,508	16,625
Manufacturing	-	-	129,284	2,085	3,009,280	-	-	-	3,140,649	1,943,677	3,164,561
Electricity, gas and water	-	-	166,888	126,166	50,025	-	206	-	343,285	15,624	53,013
Construction	-	-	48,899	760	777,574	-	-	-	827,233	-	519,208
General commerce	-	-	4,758	72,127	3,265,982	-	-	-	3,342,867	-	2,854,557
Transport, storage and communications	-	1,691	105,427	16,474	390,628	-	215	-	514,435	30,601	234,421
Finance, insurance and business services	8,422,655	2,786,102	2,953,661	2,019,222	1,443,157	-	26,030	-	17,650,827	59,531,555	995,864
Government and government agencies	17,326,311	1,996,491	4,353,785	812,491	1,592	-	113,693	1,315,464	25,919,827	-	-
Purchase of securities	-	-	-	-	-	202,187	-	-	202,187	-	-
Education, health and others	-	-	-	-	328,836	-	-	-	328,836	-	184,837
Household	-	-	-	-	23,998,701	-	-	-	23,998,701	1,944	9,736,563
Others	-	-	310,234	82,050	1,851,077	-	-	-	2,243,361	895,777	757,752
	25,748,966	4,784,284	8,072,936	3,141,363	35,653,210	202,187	140,316	1,315,464	79,058,726	62,666,395	18,975,150

<sup>+</sup> Excludes equity instruments amounting to RM93,501,000

<sup>\*</sup> Excludes equity instruments amounting to RM366,910,000

<sup>^</sup> Excludes equity instrument (net of impairment losses) amounting to RM20,455,000

<sup>#</sup> Excludes general allowances and net fair value loss arising from fair value hedges amounting to RM526,957,000 and RM35,717,000 respectively

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**47 FINANCIAL INSTRUMENTS** *cont'd*

**(c) Fair value of financial instruments**

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

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

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

**Short term funds and placements with financial institutions**

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

**Securities purchased under resale agreements**

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

**Securities held at fair value through profit or loss, available-for-sale and held-to-maturity**

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Group and the Company establish the fair value by using valuation techniques.

**Loans, advances and financing**

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

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

**Clients' and brokers' balances**

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

**Other assets and liabilities**

The carrying value less any estimated allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

**Deposits from customers**

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

Notes to the Financial Statements  
for the financial year ended 30 June 2009

47 FINANCIAL INSTRUMENTS *cont'd*

(c) Fair value of financial instruments *cont'd*

**Deposits and placements of banks and other financial institutions and bills and acceptances payable**

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

**Borrowings**

The estimated fair value of borrowings with maturities of less than six months approximate the carrying values. For borrowings with maturities of six months or more, the fair values are estimated based on either discounted cash flow model using a current yield curve appropriate for the remaining term to maturity or discounted cash flows using prevailing market rates for borrowings with similar risk profile.

**Subordinated obligations**

The fair value of subordinated obligations are based on quoted market prices.

**Credit related commitment and contingencies**

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

**Foreign exchange rate and interest rate related contracts**

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

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

On-balance sheet items	The Group 2009		The Group 2008	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>Financial assets:</b>				
Loans, advances and financing #	35,498,266	34,957,291	35,090,636	34,611,357

# The carrying amount of loans, advances and financing at the balance sheet date were not reduced to their estimated fair value which were a result of the increase in interest rates during the year, and the Board of Directors is of the view that there are no further impairment other than that already provided for. Loans, advances and financing have been assessed with impairment allowances being made in accordance with BNM/GP3.

In addition, fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132 which requires the fair value information to be disclosed. These include other receivables, statutory deposits with BNM, tax recoverable, investment in subsidiary companies, property and equipment, intangible assets and deferred tax assets.

**Notes to the Financial Statements  
for the financial year ended 30 June 2009**

**48 EQUITY COMPENSATION BENEFITS**

**Executive Share Option Scheme (“ESOS” or “Scheme”)**

The Executive Share Option Scheme (“ESOS”) of up to fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company which was approved by the shareholders of the Company on 8 November 2005, was established on 23 January 2006 and would be in force for a period of ten (10) years.

On 18 January 2006, the Company announced that Bursa Malaysia Securities Berhad had approved-in-principle the listing of new ordinary shares of the Company to be issued pursuant to the exercise of options under the ESOS at any time during the existence of the ESOS.

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

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

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

Pursuant to this, a trust has been set up for the ESOS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase the Company’s shares from the open market for the purposes of this trust. In accordance with FRS 132, the shares purchased for the benefit of the ESOS holdings are recorded as “Treasury Shares for ESOS Scheme” in equity on the balance sheet. The cost of operating the ESOS scheme is charged to the income statement.

The trustee will manage the trust in accordance with the trust deed. Upon termination of the trust, the trustee will dispose all remaining trust shares, if any, and deal with any surplus or deficit of the trust in accordance with the instructions of the Company.

There were no options granted during the financial year.

Notes to the Financial Statements  
for the financial year ended 30 June 2009

48 EQUITY COMPENSATION BENEFITS *cont'd*

Executive Share Option Scheme (“ESOS” or “Scheme”) *cont'd*

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

	The Group 2009		The Group 2008	
	Number of trust shares held	Market value	Number of trust shares held	Market value
	'000	RM'000	'000	RM'000
At 1 July	16,142	73,176	15,000	67,666
Shares purchased	1,088	4,994	1,142	5,510
At 30 June	17,230	78,170	16,142	73,176

	The Company 2009		The Company 2008	
	Number of trust shares held	Market value	Number of trust shares held	Market value
	'000	RM'000	'000	RM'000
At 1 July	15,603	71,260	14,461	65,750
Shares purchased	1,088	4,994	1,142	5,510
Shares transferred to HLA ESOS Trust	(2,230)	(10,504)	-	-
At 30 June	14,461	65,750	15,603	71,260

The ordinary shares options of the Company granted under the ESOS scheme as at 30 June 2009 are as follows:

Grant date	Performance measurement Period	As at 30 June 2008	Granted	Cancelled	As at 30 June 2009
16 March 2007	July 2006 – June 2009*	1,500,000	-	60,000	1,440,000
16 March 2007	July 2006 – June 2009 <sup>^</sup>	1,500,000	-	60,000	1,440,000
16 March 2007	July 2006 – June 2009 <sup>#</sup>	750,000	-	30,000	720,000
16 March 2007	July 2006 – June 2011*	3,500,000	-	140,000	3,360,000
16 March 2007	July 2006 – June 2011 <sup>^</sup>	3,500,000	-	140,000	3,360,000
16 March 2007	July 2006 – June 2011 <sup>#</sup>	1,750,000	-	70,000	1,680,000
		12,500,000	-	500,000	12,000,000

\* The exercise period is up to 6 months from the date of notification of entitlement (“Vesting Date”)

<sup>^</sup> The exercise period is from 13<sup>th</sup> month up to 18<sup>th</sup> month from the Vesting Date

<sup>#</sup> The exercise period is from 25<sup>th</sup> month up to 30<sup>th</sup> month from the Vesting Date

The estimated fair value of each share option granted is between RM1.02 to RM1.41 per option. This was calculated using the Black-Scholes model. The model inputs were the share price at grant date of RM5.65, exercise price of RM5.92, expected volatility of 33%, expected yield of 4% and a risk-free interest rate of 3.5%.

The options outstanding at 30 June 2009 had an exercise price of RM5.92 and a weighted average remaining contractual life (from grant date to the end of exercise period) of 5 years.



**Notes to the Financial Statements**  
for the financial year ended 30 June 2009

**49 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

(a) Formation of investment bank

On 19 October 2007, HLG Capital Berhad ("HLG Capital") and its wholly-owned subsidiary Hong Leong Investment Bank Berhad (formerly known as HLG Credit Bhd and HLG Credit Sdn Bhd) ("HLIB"), SBB Capital Markets Sdn Bhd and CIMB Bank Berhad had entered into a conditional Share Sale Agreement for HLG Capital to acquire the entire equity interest in RC Holdings Sdn Bhd (formerly known as SBB Securities Sdn Bhd) ("SBBS").

On the same date, HLG Capital submitted an application to Bank Negara Malaysia ("BNM") and Minister of Finance in relation to the proposed acquisition of identified assets and liabilities of Southern Investment Bank Berhad ("SIBB").

On 13 June 2008, HLG Capital announced inter alia that HLG Capital and HLIB entered into a conditional agreement with SIBB and CIMB Bank Berhad in respect of the abovementioned proposed acquisition of SIBB Assets and Liabilities, which was approved by Minister of Finance.

The above said proposed acquisitions which were tabled at the Extraordinary General Meeting of HLG Capital held on 9 July 2008, were approved by the shareholders. The proposed acquisition of SBBS was completed on 22 October 2008.

On 24 October 2008, HLIB entered into a Business Transfer Agreement with SBBS to transfer its entire securities business to HLIB. On 31 January 2009, pursuant to the vesting dated 3 November 2008, an Order dated 10 December 2008 was granted by the High Court of Malaya, SBBS was vested in HLIB with effect from 31 January 2009. The proposed acquisition of SIBB Assets & Liabilities was also completed on 31 January 2009.

On 24 October 2008, HLIB entered into a business transfer agreement with HLG Securities Sdn Bhd ("HLGS") to transfer its entire securities business to HLIB. On 31 January 2009, pursuant to the order of the High Court of Malaya, which was obtained on 12 December 2008, HLGS's entire securities business was vested to HLIB in accordance with the terms and conditions of the business transfer agreement entered into between HLIB and HLGS.

The internal reorganisation exercise undertaken by HLG Capital involving the transfer of the entire businesses of SBBS and HLGS to form HLIB was completed on 31 January 2009.

Following from there, HLIB was granted a Capital Markets Services Licence by the Securities Commission and an Investment Bank Licence by Bank Negara Malaysia, both effective on 31 January 2009, enabling HLIB to provide a range of investment banking products and services.

- (b) On 1 July 2008, the Company completed the disposal of 100% equity interest in Raikon Building Management Co. Sdn Bhd ("Raikon"), a wholly-owned subsidiary of the Company, to GuocoLand (Malaysia) Berhad, a related corporation of the Company, for a cash consideration based on the net asset of Raikon as at the last day of the calendar month on which all the conditions precedent under the Share Sale Agreement have been fulfilled or waived.
- (c) On 3 July 2008, Hong Leong Bank Berhad ("HLB") subscribed for 6,000,000 redeemable preference shares of USD0.01 each, issued at a premium of USD0.99 each, in HLB Principal Investments (L) Limited ("HLB PI"), a wholly-owned subsidiary of HLB. The proceeds were used by HLB PI to undertake the business of holding of or dealing in offshore securities. HLB PI commenced operations on 7 July 2008.
- (d) On 21 July 2008, HLB's subscription of 20% equity interest in Bank of Chengdu Co. Ltd (formerly known as Chengdu City Commercial Bank Co. Ltd) was completed.
- (e) On 28 August 2008, HLB announced that it will be carrying out an internal reorganisation of certain of its direct and indirect wholly-owned subsidiaries to streamline the corporate structure of HLB for better efficiency ("Internal Reorganisation").

Pursuant to the Internal Reorganisation, HLF Credit (Perak) Bhd ("HLF Credit"), currently an indirect wholly-owned subsidiary of HLB, will be transferred to become a direct wholly-owned subsidiary of HLB. Thereafter, certain wholly-owned subsidiaries of HLB, namely Gensource Sdn Bhd, Hong Leong Leasing Sdn Bhd, HLB Realty Sdn Bhd, HL Leasing Sdn Bhd and WTB Corporation Sdn Bhd will be transferred to become direct wholly-owned subsidiaries of HLF Credit. In addition, Chew Geok Lin Finance Sdn Bhd, a direct wholly-owned subsidiary of WTB Corporation Sdn Bhd, will be transferred to also become a direct wholly-owned subsidiary of HLF Credit. The considerations for the transfer of all the companies concerned will be calculated based on the net assets of the companies as at 30 June 2008 and satisfied by way of intercompany loans. The Internal Reorganisation was completed on 20 October 2008.

**Notes to the Financial Statements**  
for the financial year ended 30 June 2009

**49 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR *cont'd***

- (f) On 8 September 2008, HLFG announced *inter alia*, that the liquidator of Heritage Vest Sdn Bhd ("HV"), a wholly-owned subsidiary of HLFG had convened a Final Meeting to conclude the Member's Voluntary Liquidation of HV. A Return by the Liquidator relating to the Final Meeting was lodged on 8 September 2008 with the Companies Commission of Malaysia and the Official Receiver. HV was dissolved on 8 December 2008.
- (g) On 18 September 2008, HLFG announced that its wholly-owned subsidiary, HLFG Assets Sdn Bhd, had placed its wholly-owned subsidiary, Autoweb Sdn Bhd ("Autoweb") under Member's Voluntary Liquidation pursuant to Section 254(1)(b) of the Companies Act, 1965.
- (h) HLB had on 18 December 2008, announced that its wholly-owned subsidiary HLF Credit proposed to issue up to RM1,096.3 million nominal value of unsecured and unsubordinated bonds ("Proposed Bonds Issue") to raise funds to subscribe for foreign currency denominated principal protected investments through its subsidiaries.

The tenure of the bonds will be for four (4) years from the date of issuance. The bonds will be issued via private placement basis. HLB will be assuming the role of Principal Advisor/Lead Arranger of the Proposed Bonds Issue. The Securities Commission's approval was obtained on 27 February 2009.

- (i) On 9 January 2009, HLB announced that The State Bank of Vietnam has granted a license to HLB to incorporate and operate a 100% wholly owned commercial bank in Vietnam. The 100% wholly owned commercial bank shall be known as Hong Leong Bank Vietnam Limited ("HLBVN"). The charter capital of HLBVN is 1,000,000,000,000 (one trillion) Vietnam Dong which is approximately equivalent to RM205 million at year-end exchange rates. HLB is required to incorporate HLBVN and commence operations in Vietnam within 12 months from the date of issuance of the aforesaid license. HLBVN was incorporated 9 July 2009.
- (j) On 11 February 2009, HLFG announce that it has incorporated a wholly-owned subsidiary known as HLA Holdings Sdn Bhd ("HLAH"). The intended business activity is investment holding.
- (k) On 19 January 2009, HLG Capital announced that it is proposing to undertake the following proposals:
- a renounceable rights issue of up to 123,448,334 ordinary shares of RM1.00 each ("Rights Shares") in HLG Capital at an indicative issue price of RM1.00 per Rights Share on the basis of one (1) Rights Share for every one (1) existing ordinary share of RM1.00 each ("HLGC Shares") held in HLG Capital ("Proposed Rights Issue");
  - increase in the authorised share capital of HLG Capital from RM200,000,000 comprising 200,000,000 Shares to RM500,000,000 comprising 500,000,000 Shares ("Proposed Increase"); and
  - amendment to the Memorandum of Association of HLG Capital ("Proposed Amendment").

On 25 May 2009, HLG Capital announced that the issue price of the Rights Shares had been fixed at RM1.00 per Rights Share ("Rights Issue Price"). The Rights Issue Price was arrived at after taking into consideration the weighted average market price of HLGC Shares for the past five (5) market days up to and including 22 May 2009 (being the market day immediately preceding the price fixing date of 25 May 2009) of approximately RM1.0903.

The theoretical ex-rights price based on the above was approximately RM1.045 ("TERP"). The Rights Issue Price represented a discount of 4.5 sen or approximately 4.31% over the TERP.

At the Extraordinary General Meeting ("EGM") of HLG Capital held on 31 July 2009, the shareholders approved the Proposed Rights Issue, Proposed Increase and Proposed Amendment that were announced on 19 January 2009.

- (l) On 10 March 2009, Wah Tat Properties Sdn Bhd, a wholly-owned subsidiary of HLB, which was placed under member's voluntary liquidation pursuant to Section 254(1) of the Companies Act, 1965, was dissolved.

**Notes to the Financial Statements**  
for the financial year ended 30 June 2009

**49 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR *cont'd***

- (m) On 8 April 2009, HLB announced that it has entered into a sale and purchase agreement (“SPA”) with HLAH for the disposal of its entire shareholding of 55,000,000 ordinary shares of RM1.00 each in Hong Leong Tokio Marine Takaful Berhad (“HLTMT”), representing 55% of the issued and paid-up share capital of HLTMT, to HLAH for cash.

The consideration for the proposed disposal will be based on the net assets of HLTMT as at the last day of the calendar month on which all the conditions precedent under the SPA have been fulfilled and/or waived or such other date as may be agreed by the parties thereto. The proceeds from the proposed disposal will be utilised by the Bank for working capital purposes.

- (n) On 8 April 2009, HLFG announced its proposal to undertake a rationalisation scheme to streamline and consolidate its equity holdings in its insurance company in Hong Kong and takaful operator under HLAH, an intermediate insurance holding company, wholly-owned by HLFG.

Pursuant to the Proposed Rationalisation, the relevant parties had on 8 April 2009 entered into sale and purchase agreements (“SPAS”) in relation to the transfers/acquisition of the following equity interests:

- (i) Proposed transfer of 100% equity interest in HLIA from Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary of Hong Leong Assurance Bhd (“HLA”), to HLAH (“Proposed HLIA Transfer”)
- (ii) Proposed transfer of 10% equity of interest in Hong Leong Tokio Marine Takaful Berhad (“HLTMT”) from HLA to HLAH; and
- (iii) Proposed acquisition by HLAH of 55% equity interest in HLTMT from HLB (“Proposed Acquisition”).

The consideration for the Proposed Rationalisation will be based on the net assets of the respective companies as at the last day of the calendar month on which all the conditions precedent under the SPAs have been fulfilled and/or waived or such other date as may be agreed by the parties thereto. The consideration for the Proposed Rationalisation would be paid wholly in cash.

Subsequent to the financial year, the Proposed HLIA Transfer was completed on 31 July 2009 at a consideration of RM71,500,497.20. At the EGM of HLFG held on 17 August 2009, the shareholders approved the Proposed Acquisition.

- (o) On 22 May 2009, HLFG announced that BNM has no objection in principal for HLFG and its wholly-owned subsidiary, HLA, to commence negotiation with Mitsui Sumitomo Insurance Company Limited Japan and its subsidiary, MSIG Insurance (Malaysia) Bhd towards a potential partnership in relation to the insurance business of HLA.

**50 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR**

- (a) On 30 July 2009, the Securities Commission approved the HLIB’s application for a Variation of Regulated Activity for Capital Markets Services Licence pursuant to the Capital Markets and Services Act, 2007 subject to fulfilment of the following conditions:
- (i) HLIB shall incorporate the audit of Corporate Finance and Advisory department (“CFAD”) in the Internal Audit Plan for the Year 2009 and table the revised Internal Audit Plan to its Audit Committee within 1 month from the commencement of corporate finance activities;
  - (ii) All key personnel in the CFAD are required to be licensed as Capital Markets Representatives to carry out the regulated activity of advising on corporate finance and dealing in securities restricted to underwriting; and
  - (iii) All key personnel in the CFAD who are involved in the trading of debt securities instruments are required to be a member of Persatuan Pasaran Kewangan Malaysia (PPKM).

With the fulfilment of the above conditions, Hong Leong Investment Bank (“HLIB”) will be able to commence Corporate Finance and advisory activities.

Notes to the Financial Statements  
for the financial year ended 30 June 2009

## 51 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group and the Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's and the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

### (a) Allowance for losses on loans, advances and financing

The Group makes allowance for losses on loans, advances and financing based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines, management makes judgement on the future and other key factors in respect of the recovery of loans, advances and financing. Among the factors considered are the Group's aggregate exposure to the borrowers, the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

### (b) Life policyholders' fund

The valuation of the ultimate liability arising from policy benefit made under life insurance contract was determined with regard to the Insurance Regulations, 1996. In the case of life policies where the minimum valuation basis is specified under the Insurance Regulations, 1996, a reserve was set up such that it would not fall below the reserve determined on the minimum valuation basis. For other policies where the nature of benefit suggested that the minimum valuation basis was not applicable, a reserve was set up such that this reserve together with future premiums would be sufficient to meet the future policy liabilities.

The mortality table employed for life policies was the Statutory Valuation Mortality Table ("SVMT") 1996 Ultimate mortality table. The rate of interest assumed was 4% per annum for regular premium policies and 4.5% for single premium policies.

The net liabilities in non-unit fund were calculated as 50% of the risk charges plus the provision for future agency related expenses ("ARE"). The provision of future ARE were calculated as present value of adjusted future ARE minus present value of the net premium. The net premium is the unallocated premium after deduction of agency commission.

The net liabilities in unit fund were calculated as the total asset value of each unit investment fund.

### (c) Impairment of goodwill

The Group perform an impairment review on an annual basis to ensure that the carrying value of the goodwill does not exceed its recoverable amount from the CGU to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercise judgement in estimating the future cash flows, growth rate and discount rate.

## 52 ACQUISITION/DISPOSAL OF SUBSIDIARIES

### (i) Acquisition of SBB Securities Sdn Bhd (now known as RC Holdings Sdn Bhd) ("RC Holdings")

On 22 October 2008, Hong Leong Investment Bank acquired 100% of the total issued share capital of SBBS from SBB Capital Markets Sdn Bhd. The acquisition was satisfied by cash consideration amounting to RM74,064,336.

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**52 ACQUISITION/DISPOSAL OF SUBSIDIARIES *cont'd***

**(i) Acquisition of SBB Securities Sdn Bhd (now known as RC Holdings Sdn Bhd) (“RC Holdings”) *cont'd***

The assets and liabilities arising from the acquisition are as follows:

	At fair value RM'000
Cash and short term funds	46,247
Clients' and brokers' balances	28,274
Other receivables	1,008
Property and equipment	1,459
Prepaid lease payments	1,133
Deferred tax assets	72
	78,193
Clients' and brokers' balances	(16,049)
Payables and other liabilities	(8,294)
Net assets acquired	53,850
Goodwill on acquisition	20,214
Purchase consideration	74,064
Cash and cash equivalents acquired	(46,247)
Cash outflow on acquisitions	27,817

The goodwill is attributable to the license which is expected to benefit the Group after the acquisition of SBBS. The license is not separately recognised as it cannot be measured reliably.

The acquisition had contributed net loss of RM865,675 during the financial year. If the acquisition had occurred on 1 July 2008, the acquired business would have contributed net profit of RM3,269,902 to the Group.

**(ii) Acquisition of certain assets and liabilities of Southern Investment Bank Berhad (“SIBB”)**

On 31 January 2009, Hong Leong Investment Bank acquired the assets and liabilities of SIBB from SIBB. The acquisition was satisfied by cash consideration amounting to RM48,152,576.

The assets and liabilities arising from the acquisition are as follows:

	At fair value RM'000
Loans and advances	31,393
Property and equipment	16
Intangible assets	43
	31,452
Deposits from customers	(603)
Deposits and placements of other financial institutions	(47,796)
Payables and other liabilities	(83)
Net assets acquired	(17,030)
Goodwill acquired	65,182
Purchase consideration	48,152
Cash and cash equivalents acquired	-
Cash outflow on acquisitions	48,152

The goodwill is attributable to the license which is expected to benefit the Group after the acquisition of SIBB. The license is not separately recognised as it cannot be measured reliably.

Notes to the Financial Statements  
for the financial year ended 30 June 2009

**52 ACQUISITION/DISPOSAL OF SUBSIDIARIES *cont'd***

**(iii) Disposal of 100% equity interests in Raikon Building Management Co. Sdn Bhd (“Raikon”)**

On 1 July 2008, the disposal of 100% equity interest in Raikon was completed for a total cash consideration of RM1,819,729.

The effects of the disposal on the financial position of the Group as at 30 June 2009 are as follows:

	2008 RM'000
Property and equipment	161
Intangible assets	25
Trade receivables	306
Other receivables and deposits	40
Cash and bank balances	1,628
Other payables and accruals	(339)
Provision for taxation	(1)
Identifiable net assets disposed	1,820
Net disposal proceeds	1,820
Gain on disposal before and after tax	1,820

The net cash flow on disposal was determined as follows:

Total proceeds from disposal – cash consideration	1,820
Expenses directly attributable to the disposal, paid in cash	-
Net disposal proceeds	1,820
Cash and cash equivalents of subsidiaries disposed	(1,628)
Net cash inflow on disposal	192

**53 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were authorised for issue by the Board of Directors of the Company in accordance with a resolution of the Directors on 31 July 2009.

## Statement by Directors

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

We, Choong Yee How and Yvonne Chia, two of the Directors of Hong Leong Financial Group Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on page 43 to 141 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2009 and of the results and the cash flows of the Group and the Company for the year then ended on that date, in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

On behalf of the Board.

**Choong Yee How**  
Director

**Yvonne Chia**  
Director

Kuala Lumpur  
28 August 2009

## Statutory Declaration

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

I, Chew Seong Aun, the Officer primarily responsible for the financial management of Hong Leong Financial Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 43 to 141 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by            )  
the above named Chew Seong Aun at            )  
Kuala Lumpur in Wilayah Persekutuan on        )  
28 August 2009                                        )       Chew Seong Aun

Before me,

**Tan Seok Kett**  
Pesuruhjaya Sumpah  
Commissioner for Oaths

## Independent Auditors' Report

to the members of Hong Leong Financial Group Berhad (Company no: 8024-W)  
(Incorporated in Malaysia)

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong Financial Group Berhad, which comprise the balance sheets as at 30 June 2009 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 43 to 141.

#### Directors' Responsibility for the Financial Statements

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

#### Auditors' Responsibility

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

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

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

#### Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Company as of 30 June 2009 and of their financial performance and cash flows for the year then ended.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 11 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.



**Independent Auditors' Report**  
to the members of Hong Leong Financial Group Berhad (Company no: 8024-W)  
(Incorporated in Malaysia)

**OTHER MATTERS**

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

**PricewaterhouseCoopers**  
(No. AF: 1146)  
Chartered Accountants

**Soo Hoo Khoon Yean**  
(No. 2682/10/09 (J))  
Chartered Accountant

Kuala Lumpur  
28 August 2009

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Fortieth Annual General Meeting of Hong Leong Financial Group Berhad (“Company”) will be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Wednesday, 28 October 2009 at 2.30 p.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the year ended 30 June 2009.
2. To approve the payment of Directors’ fees of RM320,000 for the year ended 30 June 2009, to be divided amongst the Directors in such manner as the Directors may determine. **(Resolution 1)**
3. To re-elect the following retiring Directors:-
  - (a) YBhg Tan Sri Quek Leng Chan **(Resolution 2)**
  - (b) Dr Poh Soon Sim **(Resolution 3)**
4. To pass the following motions as Ordinary Resolutions:-
  - (a) “**THAT** YBhg Dato’ Haji Kamarulzaman bin Mohammed, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting.” **(Resolution 4)**
  - (b) “**THAT** YBhg General (Rtd) Tan Sri (Dr) Mohamed Hashim bin Mohd Ali, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting.” **(Resolution 5)**
  - (c) “**THAT** YBhg Tan Sri Dato’ Seri Khalid Ahmad bin Sulaiman, a Director who retires in compliance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed a Director of the Company to hold office until the conclusion of the next Annual General Meeting.” **(Resolution 6)**
5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration. **(Resolution 7)**

### SPECIAL BUSINESS

As a special business, to consider and, if thought fit, pass the following motions as Ordinary Resolutions:-

6. **Authority To Directors To Issue Shares**

“**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and from time to time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.” **(Resolution 8)**
7. **Proposed Shareholders’ Mandate on Recurrent Related Party Transactions of a Revenue or Trading Nature with Hong Leong Company (Malaysia) Berhad (“HLCM”) and Persons Connected with HLCM**

“**THAT** approval be and is hereby given for the Company and/or its subsidiaries (excluding Hong Leong Bank Berhad and HLG Capital Berhad and their respective subsidiaries) to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(A) and (C) of the Company’s Circular to Shareholders dated 6 October 2009 (“the Circular”) with HLCM and persons connected with HLCM, as set out in Appendix II of the Circular provided that such transactions are undertaken in the ordinary course of business, on arm’s length basis and on commercial terms which are not more favourable to the related party than those generally available to and/or from the public and are not, in the Company’s opinion, detrimental to the minority shareholders; AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution.

## Notice of Annual General Meeting cont'd

AND THAT such approval shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting (“AGM”) of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (b) 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 Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting, whichever is the earlier.”

**(Resolution 9)**

### 8. **Proposed Shareholders’ Mandate on Recurrent Related Party Transactions of a Revenue or Trading Nature with Tower Real Estate Investment Trust (“Tower REIT”)**

“**THAT** approval be and is hereby given for the Company and/or its subsidiaries (excluding Hong Leong Bank Berhad and HLG Capital Berhad and their respective subsidiaries) to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(B) of the Company’s Circular to Shareholders dated 6 October 2009 with Tower REIT provided that such transactions are undertaken in the ordinary course of business, on arm’s length basis and on commercial terms which are not more favourable to the related party than those generally available to and/or from the public and are not, in the Company’s opinion, detrimental to the minority shareholders; AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution.

AND THAT such approval shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting (“AGM”) of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (b) 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 Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting, whichever is the earlier.”

**(Resolution 10)**

### 9. **Proposed Shareholders’ Mandate on Recurrent Related Party Transactions of a Revenue or Trading Nature with Hong Leong Investment Holdings Pte Ltd (“HLIH”) and Persons Connected with HLIH**

“**THAT** approval be and is hereby given for the Company and/or its subsidiaries (excluding Hong Leong Bank Berhad and HLG Capital Berhad and their respective subsidiaries) to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature as disclosed in Section 2.3(D) of the Company’s Circular to Shareholders dated 6 October 2009 (“the Circular”) with HLIH and persons connected with HLIH, as set out in Section 2.2 of the Circular provided that such transactions are undertaken in the ordinary course of business, on arm’s length basis and on commercial terms which are not more favourable to the related party than those generally available to and/or from the public and are not, in the Company’s opinion, detrimental to the minority shareholders; AND THAT the Directors of the Company be and are hereby authorised to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this ordinary resolution.

AND THAT such approval shall continue to be in force until:

- (a) the conclusion of the next Annual General Meeting (“AGM”) of the Company at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or

## Notice of Annual General Meeting cont'd

- (b) 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 Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting, whichever is the earlier.”

**(Resolution 11)**

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

By Order of the Board

**CHRISTINE MOH SUAT MOI** (MAICSA No. 7005095)  
Secretary

Kuala Lumpur  
6 October 2009

### NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. A member who is an authorised nominee may appoint not more than two proxies in respect of each securities account it holds.
2. The Form of Proxy must be deposited at the Registered Office of the Company at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time and date of the meeting or adjourned meeting.

### SPECIAL BUSINESS

#### 3. Ordinary Resolution 8 On Authority To Directors To Issue Shares

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

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last AGM held on 30 October 2008 and which will lapse at the conclusion of the Fortieth AGM.

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

#### 4. Ordinary Resolutions 9 to 11 On Recurrent Related Party Transactions Of A Revenue Or Trading Nature

The proposed Ordinary Resolutions, if passed, will empower the Company and its subsidiaries (excluding Hong Leong Bank Berhad and HLG Capital Berhad and their respective subsidiaries) (“HLFG Group”) to enter into recurrent related party transactions of a revenue or trading nature which are necessary for HLF Group’s day-to-day operations, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public and are not, in the Company’s opinion, detrimental to the minority shareholders of the Company.

Detailed information on the Proposed Shareholders’ Mandate is set out in the Circular to Shareholders dated 6 October 2009 which is dispatched together with the Company’s 2009 Annual Report.

## Statement Accompanying Notice Of Annual General Meeting (Pursuant to Paragraph 8.27(2) of the Bursa Securities Main Market Listing Requirements)

- Details of individuals who are standing for election as Directors

No individual is seeking election as a Director at the forthcoming Fortieth Annual General Meeting of the Company.

## Other Information

### 1. MATERIAL CONTRACTS

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

### 2. UTILISATION OF PROCEEDS

#### Commercial Paper (“CPs”)/Medium Term Notes (“MTNs”) Programme

The Company entered into RM300,000,000 and RM800,000,000 CPs/MTNs programmes in 2002 and 2007 respectively. As at 28 August 2009, the Company has outstanding nominal values of CPs of RM405,000,000. The CPs, which have a nominal value of RM405,000,000 were raised for general capital purposes.

### 3. ANALYSIS OF SHAREHOLDINGS AS AT 28 AUGUST 2009

Authorised share capital	: RM2,000,000,000
Issued & paid-up capital	: RM1,052,767,789
Class of shares	: Ordinary shares of RM1.00 each
Voting rights	
• on show of hands	: 1 vote
• on a poll	: 1 vote for each share held

#### Distribution Schedule Of Shareholders As At 28 August 2009

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	169	3.49	6,475	0.00
100 – 1,000	920	18.98	792,074	0.08
1,001 – 10,000	2,565	52.92	10,955,765	1.04
10,001 – 100,000	979	20.20	29,392,187	2.79
100,001 – less than 5% of issued shares	212	4.37	511,974,446	48.63
5% and above of issued shares	2	0.04	499,646,842	47.46
	4,847	100.00	1,052,767,789	100.00

#### List Of Thirty Largest Shareholders As At 28 August 2009

Name of Shareholders	No. of Shares	%
1. Assets Nominees (Asing) Sdn Bhd - Guoco Assets Sdn Bhd	267,079,946	25.37
2. Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	232,566,896	22.09
3. Malaysia Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	51,000,000	4.84
4. HSBC Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	48,000,000	4.56
5. CIMB Group Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	46,000,000	4.37
6. Mayban Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	41,000,000	3.89

## Other Information

### 3. ANALYSIS OF SHAREHOLDINGS AS AT 28 AUGUST 2009 *cont'd*

#### List Of Thirty Largest Shareholders As At 28 August 2009 *cont'd*

Name of Shareholders	No. of Shares	%
7. ABB Nominee (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	40,000,000	3.80
8. Scotia Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Bhd	32,000,000	3.04
9. EB Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	31,000,000	2.94
10. Public Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	16,806,458	1.60
11. AmTrustee Berhad - Exempt AN for Hong Leong Financial Group Berhad (HLFG-ESOS)	15,000,000	1.42
12. Valuecap Sdn Bhd	14,138,700	1.34
13. Citigroup Nominees (Asing) Sdn Bhd - Citigroup Global Markets Limited	12,169,600	1.16
14. Low Poh Weng	10,198,000	0.97
15. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad - Hong Leong Company (Malaysia) Berhad	8,400,000	0.80
16. HSBC Nominees (Asing) Sdn Bhd - Exempt AN for The Bank Of Nova Scotia Asia Limited	8,265,300	0.79
17. Employees Provident Fund Board	6,640,399	0.63
18. Assets Nominees (Tempatan) Sdn Bhd - Soft Portfolio Sdn Bhd	6,057,000	0.58
19. HSBC Nominees (Asing) Sdn Bhd - The Bank Of Nova Scotia	6,020,200	0.57
20. Khalid Ahmad Bin Sulaiman	5,544,000	0.53
21. YBhg Tan Sri Quek Leng Chan	4,989,600	0.47
22. Chua Holdings Sdn Bhd	4,824,549	0.46
23. Hong Bee Hardware Company, Sdn. Berhad	4,523,400	0.43
24. RHB Capital Nominees (Tempatan) Sdn Bhd - Poh Yang Hong	4,004,800	0.38
25. HLG Nominee (Tempatan) Sdn Bhd - Chut Nyak Isham Bin Nyak Ariff	3,546,300	0.34
26. HDM Nominees (Asing) Sdn Bhd - Low Kang Hai Richard	3,280,000	0.31
27. RHB Capital Nominees (Tempatan) Sdn Bhd - Poh Soon Sim	3,000,000	0.28
28. HSBC Nominees (Asing) Sdn Bhd - Vanguard Emerging Markets Stock Index Fund	2,618,400	0.25
29. Pertubuhan Keselamatan Sosial	2,612,909	0.25
30. Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank NA, Singapore (Julius Baer)	2,600,000	0.25
	<b>933,886,457</b>	<b>88.71</b>

## Other Information

### 3. ANALYSIS OF SHAREHOLDINGS AS AT 28 AUGUST 2009 *cont'd*

#### Substantial Shareholders

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 28 August 2009 are as follows:-

Shareholders	Direct		Indirect	
	No. of shares	%	No. of shares	%
Hong Leong Company (Malaysia) Berhad	546,773,354	51.94	267,083,546	25.37 <sup>A</sup>
Tan Sri Quek Leng Chan	4,989,600	0.47	824,437,300	78.31 <sup>B</sup>
HL Holdings Sdn Bhd	-	-	813,856,900	77.31 <sup>C</sup>
Kwek Holdings Pte Ltd	-	-	818,380,300	77.74 <sup>D</sup>
Kwek Leng Beng	1,241,321	0.12	818,380,300	77.74 <sup>D</sup>
Hong Realty (Private) Limited	-	-	818,380,300	77.74 <sup>D</sup>
Hong Leong Investment Holdings Pte Ltd	-	-	818,380,300	77.74 <sup>D</sup>
Davos Investment Holdings Private Limited	-	-	818,380,300	77.74 <sup>D</sup>
Kwek Leng Kee	-	-	818,380,300	77.74 <sup>D</sup>
Quek Leng Chye	1,925,100	0.18	818,380,300	77.74 <sup>D</sup>
Guoco Assets Sdn Bhd	267,079,946	25.37	-	-
GuoLine Overseas Limited	-	-	267,079,946	25.37 <sup>E</sup>
Guoco Group Limited	-	-	267,079,946	25.37 <sup>E</sup>
GuoLine Capital Assets Limited	-	-	267,079,946	25.37 <sup>E</sup>

Notes:

- A Held through subsidiary and inclusive of shares held by Guoco Assets Sdn Bhd ("GASB")
- B Held through Hong Leong Company (Malaysia) Berhad ("HLCM") and companies in which the substantial shareholder has interest
- C Held through HLCM
- D Held through HLCM and a company in which the substantial shareholder has interest
- E Held through GASB

### 4. DIRECTORS' INTERESTS AS AT 28 AUGUST 2009

Subsequent to the financial year end, there is no change, as at 28 August 2009, to the Directors' interests in the ordinary shares/options/convertible bonds of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 34 to 40 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 except for the changes set out below:

	No. of ordinary shares	%
<b>Indirect Interest</b>		
<b>YBhg Tan Sri Quek Leng Chan in:</b>		
GuocoLand Limited	603,070,309	67.95
GuocoLeisure Limited	769,074,211	56.22
Hong Leong Industries Berhad	194,861,037	71.45

## Other Information

4. DIRECTORS' INTERESTS AS AT 28 AUGUST 2009 *cont'd*

	No. of ordinary shares	%
<b>Direct Interest</b>		
<b>Dr Poh Soon Sim in :</b>		
GuocoLand (Malaysia) Berhad	9,407,880	1.34

## 5. LIST OF PROPERTIES HELD AS AT 30 JUNE 2009

Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
1. 1, Light Street Georgetown 10200 Pulau Pinang	Freehold	Branch premises	20,594	75	7,496	30/12/1986
2. 15-G-1, 15-1-1 & 15-2-1 Medan Kampung Relau Bayan Point 11900 Pulau Pinang	Freehold	Branch premises	9,968	10	2,527	26/06/1997
3. 42, Jalan Pending 93450 Kuching Sarawak	Leasehold - 999 years (31/12/2779)	Branch premises	4,425	27	2,151	27/12/1983
4. 133, 135 & 137 Jalan Kampong Nyabor 96000 Sibul Sarawak	Freehold	Branch premises	4,871	17	3,136	28/12/1992
5. Jungle land at Sungai Lisut Rejang Sarawak Occupation Ticket 612 of 1931	Leasehold - 99 years (31/12/2026)	Jungle land	1,217,938	n/a	1	31/12/1938
6. 25 & 27, Jalan Tun Ismail 25000 Kuantan Pahang Darul Makmur	Freehold	Branch premises	1,600	18	1,514	29/06/1996
7. 69, 70 & 71 Jalan Dato' Bandar Tunggal 70000 Seremban Negeri Sembilan Darul Khusus	Freehold	Branch premises	6,000	Pre-war	1,381	27/12/1994
8. 26, Lorong Rahim Kajai 14 Taman Tun Dr Ismail 60000 Kuala Lumpur	Freehold	Branch premises	3,750	23	552	30/12/1986
9. 120-122, Jalan Mersing 86000 Kluang Johor Darul Takzim	Leasehold - 99 years (22/8/2063)	Branch premises	3,355	43	698	31/05/1990
10. 100, Jalan Gurney 72100 Bahau Negeri Sembilan Darul Khusus	Freehold	Branch premises	5,107	23	2,488	25/06/1992



## Other Information

5. LIST OF PROPERTIES HELD AS AT 30 JUNE 2009 *cont'd*

Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
11. 12, 14 & 16 Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	4,174	18	3,826	25/06/1992
12. 6, Jalan Merdeka 96100 Sarikei Sarawak	Leasehold - 60 years (31/12/2029)	Branch premises	2,240	40	102	18/10/1969
13. Vacant land at Jalan Peace Kuching, Lot 2081 Section 64 KTLD, Sarawak	Leasehold - 99 years (31/12/2037)	Vacant land	22,172	n/a	36	31/12/1967
14. 63 & 65, Jalan SS 23/15 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,760	14	3,824	28/04/1997
15. 24, Medan Taming 2 Taman Taming Jaya 43300 Balakong Selangor Darul Ehsan	Freehold	Branch premises	3,037	13	1,314	28/04/1997
16. 1, Jalan Takal 15/21 Seksyen 15 40000 Shah Alam Selangor Darul Ehsan	Leasehold - 99 years (29/6/2086)	Branch premises	2,625	22	1,239	26/06/1997
17. Lots 3594 & 3595 Jalan Baru Pak Sabah 23000 Dungun Terengganu Darul Iman	Leasehold - 84 years (2/2/2079)	Branch premises	3,199	15	223	26/06/1997
18. Lot 3073 & 3074 Jalan Abang Galau 97000 Bintulu, Sarawak	Leasehold - 60 years (12/2/2056)	Branch premises	2,582	12	1,264	26/06/1997
19. Lot 34, Putra Industrial Park 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Warehouse	96,219	13	2,655	26/01/1995
20. 1540, Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman	Leasehold - 55 years (28/2/2028)	Branch premises	10,619	34	52	30/06/1977
21. 9A & 9B, Jalan Kampong Baru 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	9,320	16	915	01/01/1994
22. 31, Jalan Ibrahim 08000 Sungai Petani Kedah Darul Aman	Freehold	Vacant	2,448	25	1	01/07/1988
23. 45, Jalan Burma 10500 Pulau Pinang	Freehold	Branch premises	14,277	31	2,192	24/11/1978
24. 33A-C, Lintang Angsana Bandar Baru Air Hitam 11500 Pulau Pinang	Leasehold - 83 years (8/4/2082)	Branch premises	4,394	14	517	26/12/1995

## Other Information

5. LIST OF PROPERTIES HELD AS AT 30 JUNE 2009 *cont'd*

Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
25. 55-57, Jalan Yang Kalsom 30250 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	11,720	30	1,157	01/10/1984
26. 27, Jalan Dewangsa 31000 Batu Gajah Perak Darul Ridzuan	Leasehold - 79 years (26/2/2078)	Branch premises	4,694	14	291	24/11/1995
27. 75, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	1,900	12	632	15/06/1998
28. 80 & 82, Jalan Othman 1/14 46000 Petaling Jaya Selangor Darul Ehsan	Leasehold - 90 years (15/6/2089)	Branch premises	9,062	19	1,260	01/06/1994
29. 36, Jalan Midah 1 Taman Midah, Cheras 56000 Kuala Lumpur	Freehold	Branch premises	2,700	22	213	30/11/1984
30. 19, Jalan 54, Desa Jaya 52100 Kepong Selangor Darul Ehsan	Leasehold - 99 years (8/3/2081)	Branch premises	5,859	27	364	29/11/1985
31. 55, Jalan Pasar 55100 Kuala Lumpur	Freehold	Branch premises	4,313	29	329	01/04/1980
32. Lot 111, Jalan Mega Mendung Kompleks Bandar Off Jalan Klang Lama 58200 Kuala Lumpur	Leasehold - 99 years (11/10/2076)	Branch premises	4,978	29	502	31/07/1988
33. 161, Jalan Imbi 55100 Kuala Lumpur	Freehold	Branch premises	2,454	13	2,041	14/02/1996
34. 8A-C, Jalan Station 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	12,854	16	473	22/10/1977
35. 109, Main Road 83700 Yong Peng Johor Darul Takzim	Freehold	Branch premises	2,740	21	212	01/09/1988
36. 31 & 32, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	8,932	17	521	05/03/1996
37. 103, Jalan Rahmat 83000 Batu Pahat Johor Darul Takzim	Freehold	Vacant	12,222	35	648	30/06/1977
38. 26 & 28, Jalan Mersing 80050 Johor Bahru Johor Darul Takzim	Freehold	Vacant	7,040	25	1,389	22/05/1995

## Other Information

5. LIST OF PROPERTIES HELD AS AT 30 JUNE 2009 *cont'd*

Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
39. 21, Jalan Tun Razak 27600 Raub Pahang Darul Makmur	Freehold	Branch premises	4,480	23	427	26/06/1986
40. 1, Bentong Heights 28700 Bentong Pahang Darul Makmur	Freehold	Branch premises	5,432	41	39	30/06/1977
41. 36, Main Road Tanah Rata 39000 Cameron Highland Pahang Darul Makmur	Leasehold - 99 years (24/11/2039)	Branch premises	1,728	69	147	30/08/1982
42. W-1-0, W-2-0 & W-1-1 Subang Square Business Centre Jalan SS15/4G 47500 Subang Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,545	10	1,908	18/12/1999
43. 2828-G-02 & 2828-1-02 Jalan Bagan Luar 12000 Butterworth Pulau Pinang	Freehold	Branch premises	12,173	10	3,618	18/12/1999
44. Lots 568-G-17 & 568-1-17 Kompleks Mutiara 3 1/2 Mile Jalan Ipoh 51200 Kuala Lumpur	Freehold	Branch premises	4,945	10	3,330	23/11/1999
45. Plot No 20, Jalan Bidor Raya 35500 Bidor Perak Darul Ridzuan	Freehold	Branch premises	3,243	10	556	23/11/1999
46. 1, Persiaran Greentown 2 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises	7,870	9	1,966	23/11/1999
47. Lots 39 & 40 Kompleks Munshi Abdullah 75100 Melaka	Leasehold - 99 years (24/2/2084)	Branch premises	5,988	10	1,484	31/05/1991
48. No. 1 & 2 Jalan Raya 09800 Serdang Kedah Darul Aman	Freehold	Branch premises	5,840	8	422	20/09/2000
49. 133 & 135, Jalan Gopeng 31900 Kampar Perak Darul Ridzuan	Freehold	Branch premises	4,700	8	346	13/12/2000
50. 65-67, Jalan Tun HS Lee 50000 Kuala Lumpur	Freehold	Vacant	2,223	13	5,007	14/10/1996
51. 34, Jalan Yong Shook Lin 46200 Petaling Jaya Selangor Darul Ehsan	Leasehold - 99 years (09/09/2059)	Branch premises	1,875	16	556	26/11/1993

## Other Information

5. LIST OF PROPERTIES HELD AS AT 30 JUNE 2009 *cont'd*

Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
52. 8, Jalan Carpenter Street 93000 Kuching Sarawak	Leasehold - 999 years (31/12/2775)	Vacant	1,860	40	1	25/08/1969
53. 64, Jalan Tun Mustapha 87007 Labuan	Leasehold - 999 years (31/12/2775)	Branch premises	1,370	18	636	30/05/1991
54. 486, Jalan Pudu 55100 Kuala Lumpur	Freehold	Vacant	2,396	12	1,394	22/08/1997
55. Island Road Sibul Lot 454, Block 5 Sibu Town District Sarawak	Leasehold - 60 years (30/11/2055)	Vacant	10,587	13	1,279	26/02/1996
56. 159, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	4	2,608	25/11/2005
57. 163, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	4	2,663	25/10/2005
58. 1, Jalan Ambong Kiri Satu (Jalan 7) Kepong Baru 52100 Kuala Lumpur	Freehold	Vacant	13,300	3	3,860	18/10/2005
59. 114 & 116, Jalan Cerdas Taman Connaught 56000 Kuala Lumpur	Leasehold - 99 years (16/10/2078)	Branch premises	12,200	3	4,109	07/06/2006
60. Lot A08-A09 Jalan SS 6/5A Dataran Glomac Pusat Bandar Kelana Jaya 47301 Petaling Jaya	Freehold	Vacant	9,800	3	2,796	06/07/2006
61. No. 2 Jalan Puteri 2/4 Bandar Puteri Puchong 47100 Selangor Darul Ehsan	Freehold	Vacant	11,850	2	1	26/06/2007
62. Lot No. PT241 Petaling Jaya District of Petaling Selangor Darul Ehsan	Leasehold	Premises	194,489	1	1	21/07/2008
63. Lot 942 Jalan Parry 98000 Miri, Sarawak	Leasehold - 60 Years (06/04/2057)	Branch Premises	5,496	12	1,012	31/01/1997
64. Lot 1, 2 & 3, Block 18 Bandar Indah Mile 4 North Road Bandar Indah Sandakan, Sabah	Freehold	Branch Premises	6,760	9	1,600	08/11/2001

## Other Information

5. LIST OF PROPERTIES HELD AS AT 30 JUNE 2009 *cont'd*

Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
65. No 3 Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh	Leasehold - 99 Years (21/11/2094)	Branch Premises	8,846	14	568	04/12/1995
66. Bangunan HLA 7 Jalan Yayasan 86000 Kluang	Leasehold - 99 Years (23/03/2084)	Branch Premises	6,019	20	471	30/12/1989
67. Wisma Hong Leong 18 Jalan Perak 50450 Kuala Lumpur	Freehold	Office Premises	333,594	8	220,000	13/11/2001
68. Unit 2.5.1 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,904	16	609	30/06/1993
69. Unit 2.1.2 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,904	16	609	30/06/1993
70. Unit 1.1.5 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,815	16	578	30/06/1993
71. Unit 1.1.3 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,288	16	410	30/06/1993
72. 14-23 Darul Aman Jalan Tun Ismail 25000 Kuantan Pahang	Freehold	Branch Premises	5,610	16	498	21/02/1993
73. 22, 22A, 22B & 22C Jalan Rubber Lots 342 & 323 Section 9 KTL D 93400 Kuching, Sarawak	Leasehold - 874 Years (31/12/2811)	Branch Premises	20,396	12	3,273	27/02/1997
74. No 1 Persiaran Greentown 4 Pusat Perdagangan Greentown 30450 Ipoh, Perak	Leasehold - 99 Years (21/11/2094)	Branch Premises	5,246	14	604	04/12/1995
75. Bangunan HLA 14/19 Leboh Bishop 10200 Penang	Freehold	Branch Premises	10,653	27	3,346	20/12/1982
76. 13-2B 2nd Floor Jalan Perdana 6/6 Pandan Perdana 55300 Kuala Lumpur	Leasehold - 99 Years (11/12/2088)	Apartment	468	5	60	2004

## Other Information

### 5. LIST OF PROPERTIES HELD AS AT 30 JUNE 2009 *cont'd*

Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
77. Block B, PJ City Jalan 219 Seksyen 51A 46100 Petaling Jaya Selangor	Leasehold - 99 Years (12/12/2107)	Office Premises	202,194	1	75,067	29/04/2008
78. 51-53, Persiaran Greenhill 30450 Ipoh, Perak	Freehold & leasehold -999 years	Branch premises	4793	15	1,992	31/12/1993
79. Room 2302, 23/F Wing On House No. 71 Des Voeux Road Central Hong Kong	Leasehold	Office	9,109	52	14,824	22/08/1991
80. Room 2301, 23/F Wing On House No. 71 Des Voeux Road Central Hong Kong	Leasehold	Office	1,953	52	2,487	19/05/2004

### 6. IMPOSITION OF SANCTIONS/PENALTIES

Bursa Malaysia had on 17 December 2008 imposed a fine of RM60,000 on HLG Futures Sdn Bhd ("HLGF") for breach of Rules of Bursa Derivatives and Rules of Bursa Derivatives Clearing.

The Board of Directors of HLG Capital Berhad and management of the HLGF have taken serious note of these breaches and have taken immediate remedial actions to ensure that these breaches do not recur.

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# Hong Leong Financial Group Berhad (8024-W)

A Member of the Hong Leong Group

## FORM OF PROXY

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

of \_\_\_\_\_

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

of \_\_\_\_\_

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

of \_\_\_\_\_

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Fortieth Annual General Meeting of the Company to be held at the Theatre, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Wednesday, 28 October 2009 at 2.30 p.m. and at any adjournment thereof.

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

RESOLUTIONS	FOR	AGAINST
1. To approve the payment of Directors' fees		
2. To re-elect YBhg Tan Sri Quek Leng Chan as a Director		
3. To re-elect Dr Poh Soon Sim as a Director		
4. To re-appoint YBhg Dato' Haji Kamarulzaman bin Mohammed as a Director pursuant to Section 129 of the Companies Act, 1965		
5. To re-appoint YBhg General (Rtd) Tan Sri (Dr) Mohamed Hashim bin Mohd Ali as a Director pursuant to Section 129 of the Companies Act, 1965		
6. To re-appoint YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as a Director pursuant to Section 129 of the Companies Act, 1965		
7. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration		
<b>Special Business</b>		
8. To approve the ordinary resolution on authority to Directors to issue shares		
9. To approve the Proposed Shareholders' Mandate on recurrent related party transactions of a revenue or trading nature with Hong Leong Company (Malaysia) Berhad ("HLCM") and Persons Connected with HLCM		
10. To approve the Proposed Shareholders' Mandate on recurrent related party transactions of a revenue or trading nature with Tower Real Estate Investment Trust		
11. To approve the Proposed Shareholders' Mandate on recurrent related party transactions of a revenue or trading nature with Hong Leong Investment Holdings Pte Ltd ("HLIH") and Persons Connected with HLIH		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2009

Number of shares held \_\_\_\_\_

Signature of Member \_\_\_\_\_

### Notes:-

- If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.
- If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.
- A proxy need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- A member shall not be entitled to appoint more than two proxies to attend and vote at the same meeting. Where two proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in order for the appointments to be valid. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.
- All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 8, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur not less than 48 hours before the time for holding the meeting or adjourned meeting.
- In the event two (2) proxies are appointed, please fill in the ensuing section:

Name of Proxies	% of shareholdings to be represented