Hong Leong Financial Group Berhad 2010

Hong Leong Financial Group Berhad (8024-W)

A Member of the Hong Leong Group

ANNUAL REPORT 2010

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.

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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 customers through a network of over 200 branches and business centres throughout Malaysia, Singapore, Hong Kong and Vietnam. Apart from more than 660 self-service terminals, the Bank also reaches out to its customers through a full-service inbound and outbound call centre, internet banking as well as phone banking and mobile banking services.

HL Bank in Singapore is a recognised boutique investment bank offering investment banking, private banking, treasury and asset management services. Hong Leong Bank Hong Kong offers treasury and wealth management products and services.

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

To further embed itself in the region, Hong Leong Bank officially became the first Malaysian bank to enter the Chinese banking sector with a 20% strategic shareholding in the Bank of Chengdu Co., Limited, the largest city commercial bank in Western China. Hong Leong Bank is also the first and only Malaysian and Southeast Asian bank to be granted a license 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 and personal financial services, 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.

Our insurance arm is spearheaded by Hong Leong Assurance Berhad, one of Malaysia's foremost home grown insurance companies, which specialises in life insurance services while general insurance will be provided through a 30% stake in its strategic partner, MSIG Insurance (Malaysia) Bhd by October 2010. Hong Leong Insurance (Asia) Limited, based in Hong Kong, offers general insurance services while Hong Leong Tokio Marine Takaful Berhad provides both family and general takaful insurance products and services. 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, a subsidiary of HLG Capital Berhad, offers investment banking and capital market services and solutions across the region. This includes corporate finance, stock broking, equity capital markets and debt capital markets.

Hong Leong Asset Management Bhd, also a subsidiary of HLG Capital Berhad, is an established fund management company in Malaysia. The company offers a comprehensive range of managed assets including unit trust funds and discretionary assets across a spectrum of funds that include state governments, insurance companies, endowments and corporations.

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 for the financial year ended 30 June 2010.

OVERALL BUSINESS ENVIRONMENT

The Malaysian economy recorded real gross domestic product ("GDP") of RM521 billion in calendar year 2009. This represented a contraction of 1.7% year-on-year ("y-o-y") in 2009, as compared to the 4.7% y-o-y growth recorded in 2008. The economic contraction was a result of the global financial crisis which developed throughout 2008 and the first half of 2009. The economic contraction presented a challenging environment for the financial services sector to operate in the period immediately after the financial crisis.

During the year, Bank Negara Malaysia ("BNM") continued to take steps to liberalise the domestic banking sector. A total of seven new commercial banking licenses were approved by BNM in the financial year ended 30 June 2010 ("FY10"). This included:

- On 20 November 2009, BNM announced the approval for a new commercial banking license to be issued to the Industrial and Commercial Bank of China Limited ("ICBC") of China.
- On 16 April 2010, BNM announced the approval for the issuance of a commercial banking license to a locally-incorporated company to be established by the Bank of Baroda (40%), Indian Overseas Bank (35%) and Andhra Bank (25%) of India.
- On 17 June 2010, BNM announced that five commercial banking licenses will be issued to established and large foreign financial institutions/banks.

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

FINANCIAL PERFORMANCE

The Hong Leong Financial Group Berhad ("HLFG" or "the Group") registered an improved performance this year with a growth in profit before taxation of 23.7%, from RM1,150.2 million to RM1,422.7 million for the financial year ended 30 June 2010. Profit after tax crossed the RM 1 billion mark during the year, and grew by 23.2% to RM1,185.3 million. For five straight years now, the Group has continued to deliver record financial performances each year. Our record earnings this year were driven by growth in all three core businesses of commercial banking, insurance and investment banking.

Overall, return on equity improved from 14.6% in FY09 to 17.4% in FY10. Earnings per share ("EPS") grew by 34.1% y-o-y from 61.0 sen in FY09 to 81.8 sen in FY10.

Total assets for the Group grew from RM86.4 billion in the previous year to RM93.9 billion as at 30 June 2010 driven mainly by growth in Hong Leong Bank Berhad's ("HLB") assets. Total Shareholders' Equity grew from RM4.50 billion as at 30 June 2009 to RM5.16 billion as at 30 June 2010 whilst net assets per share of the Group increased from RM4.27 to RM4.90 as at 30 June 2010.

Hong Leong Bank

The Banking Division of the Group, Hong Leong Bank Group ("HLB" or "the Bank"), registered a profit before taxation of RM1,185.3 million for the financial year ended 30 June 2010 as compared to RM1,132.2 million in the previous year reflecting growth of 4.7% y-o-y. The growth was mainly due to lower loan loss provisions (which fell RM51.7 million y-o-y to RM105.0 million) and higher contribution from 20%-owned Chinese associate Bank of Chengdu. The Bank of Chengdu contributed RM143.6 million or 12.1% of HLB's profit before taxation in FY10.

Asset quality continued to improve, with the gross non-performing loan ("NPL") ratio falling marginally from 2.2% in FY09 to 1.9% in FY10. Net NPL ratio edged downwards from 1.3% in FY09 to 1.2% in FY10, the second lowest among the domestic banking groups. Properly assessed risk-based decision making continues

Chairman's Statement
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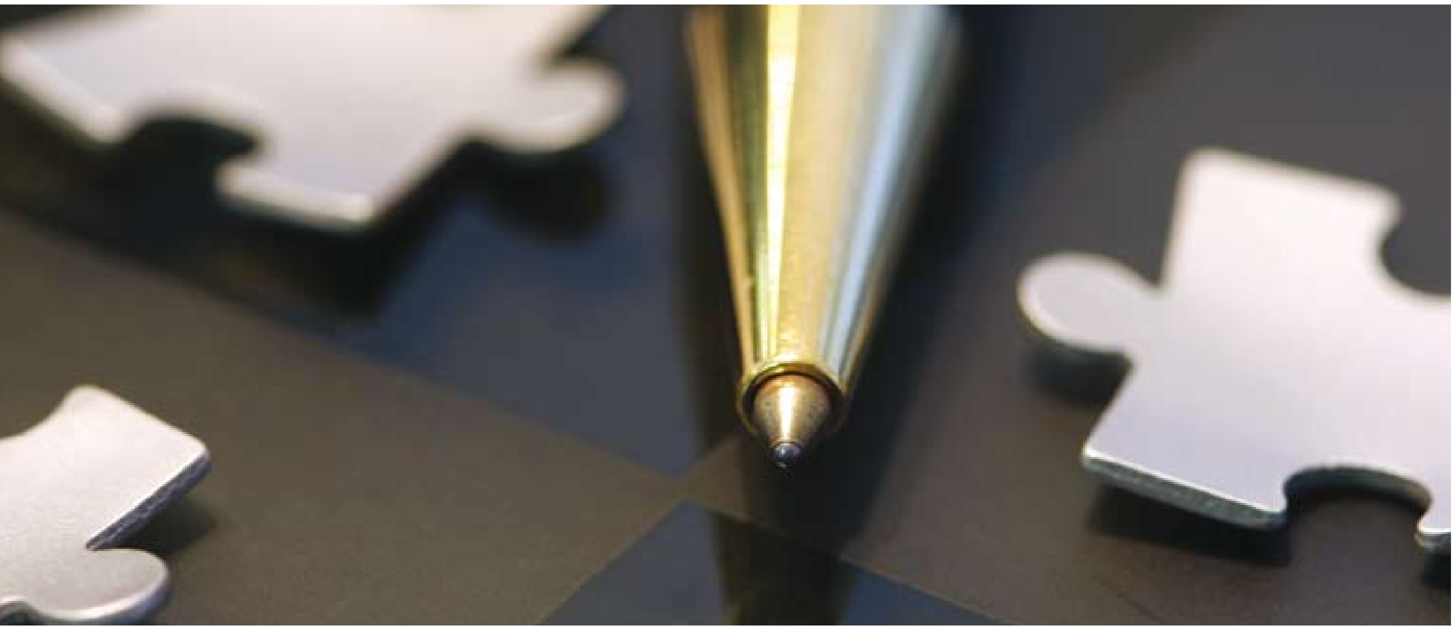

to be an important discipline within the Group and in line with this, our loan loss coverage improved from 109.1% in June 2009 to 117.4% as at June 2010. Loan loss provisions decreased from RM156.7 million to RM105.0 million reflecting an improvement in asset quality due to the enforcement of stricter credit initiation criteria and improved loan collections. Earnings per share increased by 9.1% from 62.5 sen in the previous year to 68.2 sen in FY10. Overall, return on equity decreased from the 16.7% achieved in FY09 to 16.2% in FY10 due to HLB's higher equity base.

Total assets for HLB grew by 6.8% y-o-y from RM79.3 billion to RM84.7 billion as at 30 June 2010. The resumption of growth in the economy in the first half of calendar year 2010 allowed HLB to re-focus on growing its loan book. This allowed HLB to grow its net loans by 8.5% y-o-y to RM37.7 billion as at 30 June 2010.

Customer deposits increased by 3.2% y-o-y to RM69.7 billion as at 30 June 2010, 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 15.5% as at June 2010. 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 combined profit before taxation for its life and non-life businesses of RM175.5 million for the financial year ended 30 June 2010 as compared to RM86.7 million a year ago, an increase of 102.4% y-o-y. The higher profit was primarily due to a higher surplus from the Life Fund of RM175.0 million versus RM57.0 million in the previous financial year. The Life Division's gross premiums increased by 16.2% y-o-y to top the RM1 billion mark at RM1,071.4 million for the current financial year, benefiting from an enlarged agency force. The General Division's profit before taxation was approximately maintained at RM31.4 million in the current financial year.

HLG Capital Group

The Investment Banking Division, HLG Capital Berhad ("HLGC"), reported a profit before taxation of RM20.4 million for the financial year ended 30 June 2010. This represents growth of 50.0% compared to a profit before taxation of RM13.6 million a year ago, excluding a RM57.2 million goodwill impairment charge booked by HLGC's wholly-owned subsidiary Hong Leong Investment Bank Berhad ("HLIB") last year.

HLIB contributed RM18.9 million to HLGC's profit before taxation, with the majority of its earnings contributed by its stockbroking business. However, given that HLIB has now established a full-fledged investment bank, we expect its earnings to be augmented by contributions from its investment banking unit going forward.

The Asset Management business under HLGC's 100%-owned subsidiary Hong Leong Asset Management Berhad ("HLAM") recorded a lower profit before taxation of RM6.3 million compared to the RM7.8 million recorded in the previous financial year. Competition remains stiff within the industry and coupled with higher distribution costs, we are continuously re-evaluating how to better position HLAM to improve the profitability of this business.

HONG LEONG FINANCIAL GROUP – TOWARDS ACHIEVING OUR VISION

I am pleased to report that we continued to make significant progress this year. We have built upon the successes of our core businesses and have taken tangible steps to grow both organically and inorganically. Among the key milestones during the year were:

- The completion of the formation of our 100%-owned insurance holding company, HLA Holdings Sdn Bhd ("HLAH"). The following transfers were completed during the financial year:

Chairman's Statement
(continued)

- The transfer of 100% equity interest in Hong Leong Insurance (Asia) Limited from Allstate Health Benefits Sdn Bhd to HLAH was completed on 31 July 2009.
- The transfer of 65% equity interest in Hong Leong Tokio Marine Takaful Berhad from HLB (55%) and HLA (10%) to HLAH was completed on 1 September 2009.
- The transfer of 100% equity interest in HLA from HLFG to HLAH was completed on 1 January 2010.

▪ On 18 June 2010, HLFG announced a Proposed Strategic Partnership between HLAH and Mitsui Sumitomo Insurance Company, Limited ("MSIJ") of Japan in relation to the insurance businesses of HLA and MSIG Insurance (Malaysia) Berhad ("MSIM") to be effected by way of:

- The Proposed Merger of both non-life businesses of HLA and MSIM via the transfer of HLA's non-life business valued at RM619 million to MSIM, to be satisfied by the issuance of new MSIM shares equivalent to 30% of the enlarged paid-up capital of MSIM. ("Proposed Non-Life Business Merger"); and
- Upon completion of the Proposed Non-Life Business Merger, the disposal by HLAH of 30% equity interest in HLA to MSIJ for a cash consideration of RM940 million ("Proposed Life Equity Divestment").

Based on the minimum shareholders' funds of HLA at the completion date of RM485 million as specified in the sale and purchase agreement, HLA's Life Business is valued at a price to book multiple of 6.5x.

The Non-Life Transfer Consideration of RM619 million represents a premium of RM619 million to the value of HLA's Non-Life Business assets and liabilities transferred. This arises from the terms of the sale and purchase agreement whereby the value of the Non-Life Assets transferred is equal to the value of the Non-Life Liabilities transferred.

The value ascribed to HLA's Life Business for 100% equity interest is RM3,133 million. Hence HLA's combined Life and Non-Life Businesses are valued at a total of RM3,752 million. Based on the minimum shareholders' funds of HLA at the completion date of RM485 million, HLA's combined Life and Non-Life Businesses are valued at a price to book multiple of 7.7x. The Proposed Strategic Partnership is expected to be completed on 1 October 2010.

▪ On 21 January 2010, HLB proposed to acquire the entire assets and liabilities of EON Capital Berhad for a cash consideration which was subsequently raised to RM5.06 billion or approximately RM7.30 per EON Capital Berhad share ("Proposed Acquisition").

▪ On 23 April 2010, HLB proposed to undertake a renounceable rights issue to raise gross proceeds of RM1,600 million ("Proposed Rights Issue"). The Proposed Rights Issue is conditional upon the Proposed Acquisition. The Proposed Acquisition is pending, amongst others, the approval of the shareholders of EON Capital Berhad and the High Court. The approval of Bank Negara Malaysia /Minister of Finance was received on 3 August 2010.

We believe that judiciously undertaken corporate proposals like the above and the continued improved performances by our financial group businesses, will enable us to transform HLFG Group not only into a much bigger domestic player but also a regional based financial services group tapped into the growth prospects of Asia.

Last but not least, we firmly believe that it is the people who make the difference in our organization to help us sustain, grow and achieve our strategic objectives. Hence, we remain committed to attract, retain and develop the human resource capabilities in the Group.

Chairman's Statement
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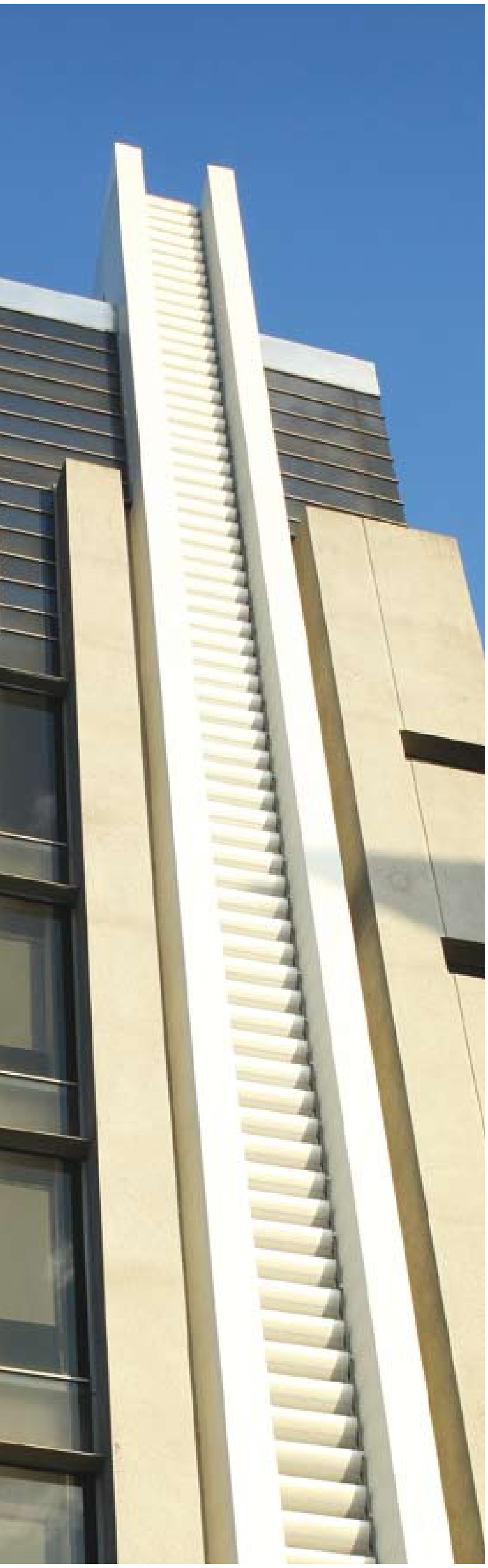


PROSPECTS

The financial year ahead is expected to continue to be a challenging one due to increased competition from our existing competitors and new licensees. Notwithstanding this, the 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 our 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, comprising of 17 sen per share less tax and 6 sen per share which was tax exempt. This compares to the 23 sen per share less tax paid in the previous financial year. Hence overall, the net dividend per share increased from 17.7 sen per share in FY09 to 18.8 sen per share for the current financial year. The dividends for this financial year comprised of a first interim dividend of 9 sen per share less 25% tax paid on 21 December 2009 (FY09: 9 sen per share less 25% tax) and a second interim dividend of 8 sen per share less 25% tax and 6 sen per share tax exempt paid on 29 June 2010 (FY09: 14 sen per share less 25% tax).

The Board has decided not to recommend a final dividend for the financial year ended 30 June 2010 (FY09 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
17 September 2010

President & Chief Executive Officer's Review

I am pleased to present the President/CEO's report for the financial year ended 30 June 2010. 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 23.7% growth in profit before taxation from RM1,150.2 million to RM1,422.7 million for the financial year ended 30 June 2010 ("FY10"). Profit after tax crossed the RM 1 billion mark during the year, and grew by 23.2% to RM1,185.3 million. Profit attributable to equity holders of the Company grew by 34.0% year-on-year ("y-o-y") to RM846.8 million, which represented the fifth consecutive record year for the Group in terms of earnings. Correspondingly, return on average equity increased from 14.6% in FY09 to 17.4% in FY10. Earnings per share improved by 34.1% to 81.8 sen from 61.0 sen in the previous financial year.

Total assets for the Group grew from RM86.4 billion in the previous year to RM93.9 billion as at 30 June 2010 driven mainly by strong growth from the Banking Division. Net assets per share of the Group increased from RM4.27 to RM4.90 as at 30 June 2010.

At the Company level, profit before taxation decreased by 20.7% y-o-y to RM200.2 million for the financial year ended 30 June 2010 as compared to RM252.5 million in the previous financial year. This was mainly due to lower dividend income from subsidiaries in the current financial year, as some dividends from our subsidiaries will be remitted in FY11.

President & Chief Executive Officer's Review
(continued)

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 to pursue attractive investment opportunities as they arise from time to time. Net dividend per share rose from 17.7 sen per share in FY09 to 18.8 sen per share in FY10 as 6 sen per share of our second interim dividend was tax exempt. The entire 23 sen dividend per share declared for FY09 was paid less 25% tax.

BUSINESS AND OPERATIONAL REVIEW

I am pleased to report that we continue to make good 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:

- On 21 January 2010, Hong Leong Bank Berhad ("HLB") proposed to acquire the entire assets and liabilities of EON Capital Berhad for a cash consideration which was subsequently raised to RM5.06 billion or approximately RM7.30 per EON Capital Berhad share ("Proposed Acquisition"). If completed, the Proposed Acquisition will catapult HLB from being the sixth largest domestic commercial bank to the fourth largest by asset size.

- The Bank of Chengdu Co. Ltd. ("Bank of Chengdu") has continued to improve its performance. Associate contribution from the Bank of Chengdu increased 44.4% y-o-y to RM143.6 million. The Bank of Chengdu now contributes 12.1% to HLB's profit before taxation. The Bank of Chengdu continues to have excellent asset quality (NPL ratio 1.3%. Loan loss coverage 167%), solid capitalization (Capital Adequacy Ratio 13.6%) and earns a creditable return on equity of 15%. Net profit has crossed the RMB1 billion mark to RMB1.08 billion in its financial year ended 31 December 2009 whilst total assets have crossed the RMB100 billion mark to RMB104 billion.

- Hong Leong Bank Vietnam Limited ("HLBVN"), the first wholly-owned subsidiary of any Southeast Asian banking group in Vietnam, successfully started operations in Ho Chi Minh City in the second quarter of FY10. HLBVN remains focused on building greenfield business operations and strengthening its foundations to strongly participate in the growth story of Vietnam.

- The stable Personal Financial Services ("PFS") segment, which has more granularity in its loan book among our retail customers, contributed 51% 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 be approximately maintained at a creditable 16.2% this year.

- HLB's net NPL ratio, the second lowest among the domestic commercial banks, fell further to 1.2% as at June 2010. Both HLB's gross (1.9%) and net NPL ratio remain well below industry levels.

- HLB remains strongly capitalised with a Capital Adequacy Ratio of 15.5% as at June 2010. This provides HLB the ability 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 3.2% y-o-y to RM69.7 billion. Low cost current and savings account ("CASA") deposits now constitute 23% of total customer deposits. HLB's loan/deposit ratio of 54.1% 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 loan segments of mortgages, credit card receivables and personal loans. We are the fifth 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 9% during the year under review.

- HLB's treasury business posted a profit before taxation of RM318.6 million, contributing 26.9% of HLB's profit before taxation.

President & Chief Executive Officer's Review

(continued)

- Loans to domestic business enterprises grew by 12.3% y-o-y. Although we believe that we have yet to achieve our full potential in Business Banking, we are encouraged by this expansion in our business loan book.

- The Proposed Strategic Partnership between HLA Holdings Sdn Bhd ("HLAH") and Mitsui Sumitomo Insurance Company, Limited ("MSIJ") of Japan in relation to the insurance businesses of Hong Leong Assurance Berhad ("HLA") and MSIG Insurance (Malaysia) Berhad ("MSIM") will be completed on 1 October 2010. The Proposed Strategic Partnership allows the Group to enjoy an attractive valuation on the Proposed Life Equity Divestment. In addition, our subsidiary HLAH will hold 30% equity interest in MSIM, which is expected to be the second largest general insurance company in Malaysia, post completion of its merger with HLA's general business.

- HLA's Life Business maintained its market position as the fifth largest life insurer in terms of new annualised regular premium sales, on the back of a 16% y-o-y increase in new annualised regular premiums. Our market share of new annualised regular premiums stands at 7.6%. Life Business gross premiums grew 16.2% y-o-y to top the RM1 billion mark for the first time, at RM1.07 billion.

- FY10 has been a base building year for sub-subsidiary Hong Leong Investment Bank Berhad ("HLIB"), which achieved 'investment bank' status on 31 January 2009. A full investment banking team was built up during the year and the requisite infrastructure established to support the growth of the investment banking business in future years.

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.

For the next financial year 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 its business and loan growth momentum both domestically as well as to accelerate the growth and contribution from our new businesses in China and Vietnam. We will also actively explore new business opportunities within Malaysia and the region.

OTHER DEVELOPMENTS

We have earlier elaborated on the Proposed Strategic Partnership and the establishment of our intermediate insurance holding company, HLA Holdings Sdn Bhd. In addition to these, I am pleased to summarise the key corporate developments which transpired at the HLFG Group during the financial year.

On 3 August 2010, HLB announced that it had on 3 August 2010 fully redeemed its USD200 million Subordinated Callable Bonds due 2015 ("Bonds").

President & Chief Executive Officer's Review
(continued)

On 10 August 2010, HLB announced that it had completed its inaugural Ringgit issuance of RM700 million Tier 2 Subordinated Debt ("Sub Debt"). The Sub Debt formed part of HLB's Tier 2 Subordinated Notes Programme of up to RM1.7 billion, as approved by the Securities Commission vide its letter dated 27 July 2010.

On 2 November 2009, HLB announced that it had entered into a joint venture agreement with the Bank of Chengdu to form a joint venture company to operate a licensed consumer finance company in Chengdu, Sichuan, the People's Republic of China. The joint venture company Sichuan Jincheng Consumer Finance Limited Company ("SJCF") was incorporated on 26 February 2010. HLB holds 49% equity interest in SJCF whilst the balance equity interest is held by the Bank of Chengdu. The approved registered capital of SJCF is RMB320 million (approximately RM147 million). SJCF is part of the first batch of approved companies to start consumer finance operations in Central and Western China. The joint venture allows the Group to further participate in the sizeable and fast growing Chinese economy.

On 4 November 2009, HLB announced that it had entered into a Finance Development Cooperation Agreement ("Cooperation Agreement") with the China Development Bank Corporation ("CDB"). The Cooperation Agreement sets the platform for the HLB Group, including its subsidiary, Hong Leong Islamic Bank Berhad, and CDB to collaborate and cooperate with each other in various areas including funding, financing opportunities, currency swaps, personnel exchange and training as well as information exchange.

On 15 April 2010, HLG Capital Berhad announced that it proposed to merge the business operations of its two wholly-owned subsidiaries, HLG Unit Trust Berhad ("HLGUT") and HLG Asset Management Sdn Bhd ("HLGAM") ("Proposed Merger"). Pursuant to the Proposed Merger, HLGAM had on 15 April 2010 entered into a Business Transfer Agreement with HLGUT whereby HLGAM transferred its assets, liabilities and business to HLGUT with effect from 1 June 2010. HLGUT changed its name to Hong Leong Asset Management Bhd ("HLAM") with effect from 20 April 2010. The purpose of the merger is to achieve greater operational efficiencies within the two similar businesses as well as to rebrand HLAM as the sole entity operating the asset management business within the Group.

RATING

We are pleased to announce that Malaysian Rating Corporation Berhad ("MARC") in August 2010 upgraded the short-term and long-term credit ratings of HLFG's RM800 million (2007/2014) commercial paper and medium-term notes ("CP/MTN") programme to AA/MARC-1. The rating outlook is stable. HLFG now holds the third highest credit rating within MARC's rating scale.

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
17 September 2010

Corporate Social Responsibility

Long before corporate social responsibility as a single concept was promulgated into guidelines for companies to follow, the Group was already well on its journey. Corporate Social Responsibility (CSR) for the 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 an on-going concern.
- An established Enterprise Risk Management structure to ensure that a systematic process and delegation of responsibility is clearly set out to guide management. The Group sees Enterprise Risk Management as a serious consideration to protect the company from defaults that could fundamentally damage enterprise value.
- A strict code of business conduct and ethics which the Group abides by in all types of transactions and interactions.
- Public communications, like financial reports contain disclosures that are fair, accurate, timely and understandable.
- In choosing its directors, the Group seeks individuals of high integrity, have shareholder orientation and a genuine interest in their respective company's businesses. They are tasked with the responsibility of exercising their business judgment to act in what they reasonably believe to be in the best interest of the company and the shareholders they represent.
- The strict practice of responsible selling and marketing of products and services, in a global market that is increasingly becoming even more aggressive and competitive.

Corporate Social Responsibility
(continued)

SOCIAL SUSTAINABILITY

Employee Development and Welfare

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

The Group's Graduate Development Programme aims to identify and develop young graduates into engineering talents to support the growth of the Group. Such programme entails classroom training, on-the-job familiarisation, projects or 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 an approximate total workforce of 28,000 spread across North Asia and Southeast Asia, and the UK, 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 cultures 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.

Corporate Social Responsibility
(continued)

In addition, we conduct regular occupational safety and awareness programmes for our employees.

Earth Hour, a global event where households and businesses are encouraged to turn off non-essential lights and other electrical appliances for one hour to raise awareness towards the need to take action on climate change, was observed by the Group.

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

COMMUNITY INVESTMENT

The Group conducts most of its philanthropic activities through 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 academically outstanding Malaysian students from low-income families, and of late also included students with disabilities. The Foundation believes that providing scholarships is about providing opportunities – giving deserving students the chance to have the higher education necessary to break the cycle of poverty and become tomorrow's leaders.

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

Apart from these, a separate fund is set aside for scholarship grants for deserving children of Group staff. Both

Corporate Social Responsibility
(continued)

grants for the public and Group staff's children are unconditional – they do not carry any repayment requirement nor are the recipients bonded to work for the Group upon graduation.

Student Assistance

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

School Building Fund

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

Towards this, the Foundation has made substantial donations to various academic and vocational training institutions nationwide.

Community Welfare

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

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

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

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

Small Enterprise Programme

The people behind Hong Leong Group are entrepreneurs and we seek to propagate this same spirit of entrepreneurship to the community. By expanding our contribution to the community to include this new category, through our dealings with various charities on 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 Ray of Hope and The Community Service Centre For the Deaf, Kuala Lumpur.

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 Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd)

Ms Yvonne Chia

Ms Lim Tau Kien

Ms Leong Bee Lian

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.hlfg.com.my

Board of Directors' Profile

■ YBHG TAN SRI QUEK LENG CHAN

Chairman/
Non-Independent

Aged 67, Tan Sri Quek Leng Chan, 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 Remuneration Committee ("RC") and Nominating Committee ("NC") of HLFG.

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

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

Board of Directors' Profile
(continued)

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 CHOONG YEE HOW
President & Chief Executive Officer/Non-Independent

Aged 54, Mr Choong Yee How, 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 26 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 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 and Hong Leong Investment Bank Berhad ("HLIB"), all public companies.

Mr Choong has attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2010.

MR QUEK KON SEAN
Executive Director/ Non-Independent

Aged 30, Mr Quek Kon Sean, a Malaysian, obtained a Bachelor of Science and Master of Science degree in Economics from the London School of Economics and Political Science. In 2002, he 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 is also a Director of HLB and HLGC, both companies listed on the Main Market of Bursa Securities and HLA, a public company.

Mr Quek has attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2010.

YBHG DATO' HAJI KAMARULZAMAN BIN MOHAMMED
Non-Executive Director/ Independent

Aged 80, YBhg Dato' Haji Kamarulzaman bin Mohammed, 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"), RC and NC of HLFG.

YBhg Dato' has attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2010.

YBhg Dato' is also a Director of Hong Leong Asset Management Bhd (formerly known as HLG Unit Trust Bhd), a public company.

Board of Directors' Profile
(continued)

YBHG TAN SRI DATO' SERI KHALID AHMAD BIN SULAIMAN
Non-Executive Director/ Independent

Aged 74, YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, 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 is also a Director of HLGC, a company listed on the Main Market of Bursa Securities, and HLIB, a public company.

YBhg Tan Sri Khalid has attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2010.

YBHG GENERAL TAN SRI (DR) MOHAMED HASHIM BIN MOHD ALI (RTD)
Non-Executive Director/ Independent

Aged 75, YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd), 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, YBhg Gen Tan Sri joined Perwira Niaga Malaysia (PERNAMA) as Chairman, a company that served the Malaysian Armed Forces. In January 1999, he 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 Tan Sri was appointed to the Board of HLFG on 8 June 1992 and is a member of the NC of HLFG.

YBhg Gen 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 Bluwater Developments Berhad, Borneo Highlands Hornbill Golf & Jungle Club Berhad and Mines Excellence Golf Resort Berhad, all public companies.

YBhg Gen Tan Sri has attended all of the four Board Meetings of HLFG held during the financial year ended 30 June 2010.

Board of Directors' Profile
(continued)

DR POH SOON SIM
Non-Executive Director/
Non-Independent

Aged 65, Dr Poh Soon Sim, 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 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.

Dr Poh has attended all the four Board Meetings of HLFG held during the financial year ended 30 June 2010.

MS YVONNE CHIA
Non-Executive Director/
Non-Independent

Aged 57, 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 ("RHB Bank") as General Manager and went on to become Chief Executive Officer/Managing Director of RHB Bank, a position she held until March 2002. She successfully grew RHB Bank to be one of leading local banks in Malaysia and in the region during the challenging years of the Asian financial crisis (1996-2002). She further strengthened RHB Bank's position from 6th to 3rd largest bank in Malaysia through a series of mergers and acquisitions with DCB Bank Berhad and Kwong Yik Bank Berhad. She also headed a distressed bank (the former Sime Bank Berhad) under the ambit of Bank Negara Malaysia ("BNM") during the Asian financial crisis (1999/2000) while serving concurrently as the Managing Director of RHB Bank.

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 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 Berhad, HLISB and Prominic Berhad, all public companies.

Ms Chia has attended two out of the four Board Meetings of HLFG held during the financial year ended 30 June 2010.

Board of Directors' Profile
(continued)

MS LEONG BEE LIAN
Non-Executive Director/
Independent

Aged 56, Ms Leong Bee Lian, a Malaysian, holds a Bachelor of Economics and Accounting from the University of Monash, Australia. Ms Leong has a total of 33 years of service in BNM where she had served in various senior positions, the last being the Assistant Governor in BNM, Treasury and Investment, Exchange Administration and the Currency Operations Department of BNM. Prior to her appointment as the Assistant Governor, Ms Leong was the Chief Representative of BNM's London Representative Office, United Kingdom.

Ms Leong was appointed to the Board of HLFG on 8 April 2010.

Ms Leong attended the one Board Meeting of HLFG held during her office as Director of HLFG for the financial year ended 30 June 2010.

MS LIM TAU KIEN
Non-Executive Director/
Independent

Aged 54, Ms Lim Tau Kien, a Malaysian, graduated with a Bachelor of Accountancy from the University of Glasgow Faculty of Law and is a Chartered Accountant registered with the Institute of Chartered Accountants of Scotland.

Ms Lim forged her early career with Ernst & Young, United Kingdom, before joining the Ministry of Finance and Prime Minister's Department as a Federal Accountant. She subsequently moved to Shell where she held various senior financial positions over a period of 25 years, her last position being the Country Chief Financial Officer/ Finance Director of Shell China.

Ms Lim was appointed to the Board of HLFG on 8 April 2010.

Ms Lim attended the one Board Meeting of HLFG held during her office as Director of HLFG for the financial year ended 30 June 2010.

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.

Board Audit & Risk Management Committee Report
(continued)

TERMS OF REFERENCE (continued)

- 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 2010, 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.

Board Audit & Risk Management Committee Report
(continued)

ACTIVITIES (continued)

The BARMC reviewed and verified that the allocation and vesting of the conditional incentive share options granted to the option holders pursuant to the Executive Share Option Scheme of the Company were in accordance with the performance criteria as approved by the Board.

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 2010, 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 2010 was RM5,711,055.

This BARMC Report is made in accordance with the resolution of the Board of Directors.

Corporate Governance and Internal Control

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

~ Finance Committee on Corporate Governance

The Board of Directors ("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.

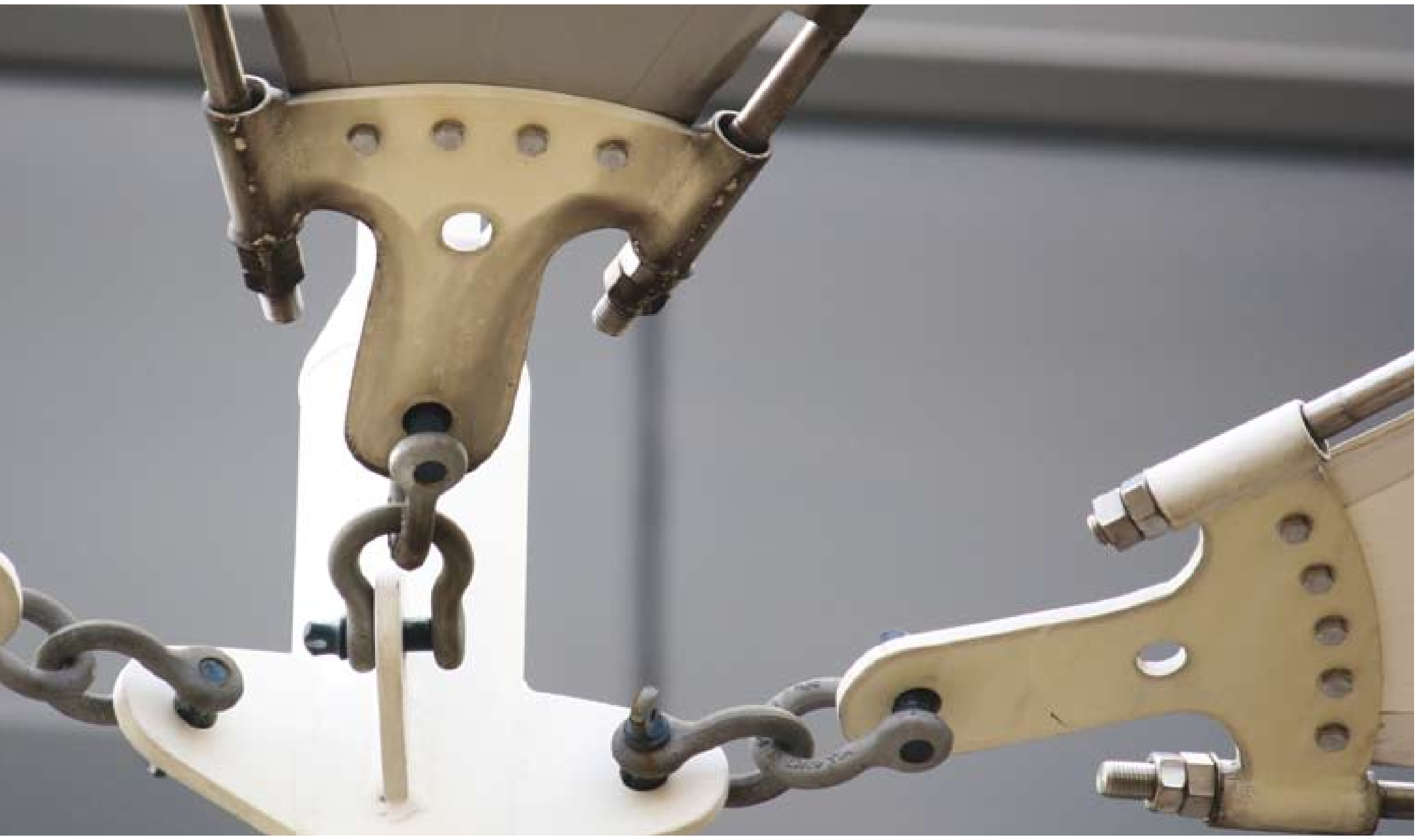
II Board Balance

The Board comprises ten (10) directors, eight (8) of whom are non-executive. Of the non-executive directors, five (5) 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 ("KPAs") and strategic developments.

Corporate Governance and Internal Control
(continued)



A. DIRECTORS (continued)

II Board Balance (continued)

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, and 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 2010 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 in a timely manner. Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Company and of the Group and management's proposals which require the approval of the Board.

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

Corporate Governance and Internal Control
(continued)

A. DIRECTORS (continued)

V Appointments to the Board

The Nominating Committee ("NC") 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 Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd)
(Independent Non-Executive Director)

The NC'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 NC 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 NC also reviews the performance of the Board against its terms of reference.

During the financial year ended 30 June 2010, two (2) NC meetings were held and the meetings were attended by all the members.

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.

Corporate Governance and Internal Control
(continued)

A. DIRECTORS (continued)

VII Training And Education

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

As part of the training programme for its Directors, the Company has prepared for the use of its Directors the Director Manual, and regularly organises in-house programmes and 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 2010, the Directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any new or changes to the companies and other relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house 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 2010, the Directors of the Company, attended the following training programmes, seminars, briefings and/or workshops:-

- Financial Institutions Directors' Education Programme
- Competency As The Backbone Of Transformation
- Managing Risks On Mortgage Financing
- EQ Leadership Development
- DB Access Asia Conference
- 14th Malaysian Banking Summit ("Liberalisation & Internationalisation – The Next Wave In Malaysian Banking & Finance Industry)
- The Non-Executive Director Development – "Is it Worth The Risk?"
- Securities Commission – Bursa Malaysia Corporate Governance Week 2010 – Towards Corporate Governance Excellence:
    - Corporate Governance Roundtable
    - Engagement Versus Activism – Achieving The Right Balance?
    - The Changing Landscape of Shareholder Activism – The Roles We Play
    - Independent Directors – Actual Versus Perceived Independence
    - Views From The Boardroom – Challenges Directors Face
    - Corporate Governance, Professionalism And Accountants : How To Enhance The Synergy?
    - Corporate Integrity Systems Malaysia
    - Beyond Governance, Enter Sustainability
    - Statement On Risk Management And Internal Control
    - Stroking The Fire Of Corporate Governance
    - Boardroom Ethics
    - Board Role, Directors Duties And Blind Spots, Biases And Other Pathologies In The Boardroom
- Latest Risk Faced By Audit Committee
- Investor Relations – Managing Strategic Issues In A Challenging Environment
- How To Make The Competition Irrelevant
- Corporate Governance – Is Your Long-Term Incentive Plan Driving Sustainable Long-Term Results

Corporate Governance and Internal Control
(continued)

B. DIRECTORS' REMUNERATION

I Level and Make-up of Remuneration

The Remuneration Committee ("RC") 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)
(Appointed on 21 June 2010)

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

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

The RC'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 2010, one (1) RC meeting was held and the meeting was 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 RC in assessing and reviewing the remuneration packages of executive directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices.

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

Corporate Governance and Internal Control
(continued)

B. DIRECTORS' REMUNERATION (continued)

III Disclosure

The aggregate remuneration of Directors (including remuneration earned as directors of subsidiaries) for the financial year ended 30 June 2010 is as follows:

	Fees (RM)	Salaries & Other Emoluments (RM)	Total (RM)
Executive Directors	447,632	3,959,920	4,407,552
Non-Executive Directors	1,021,084	3,646,975	4,668,059

The number of directors whose remuneration (including directors who have been appointed during the financial year ended 30 June 2010) falls into the following bands is as follows:

Range Of Remuneration (RM)	Executive	Non-Executive
1 – 50,000	-	2
50,001 – 100,000	-	2
100,001 – 150,000	-	1
250,001 – 300,000	-	1
400,001 – 450,000	-	1
750,001 – 800,000	1	-
3,600,001 – 3,650,000	1	-
3,650,001 – 3,700,000	-	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.hlfg.com.my which the shareholders can access for corporate information, including 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:-

Name : Mr Chew Seong Aun, Group Chief Financial Officer
Tel No : 03-2164 8228
Fax No : 03-2715 8988
e-mail address : cfo-hlfg@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.

Corporate Governance and Internal Control
(continued)

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 2010. 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 Group Internal Audit Division ("GIAD") and Integrated Risk Management & Compliance Division. GIAD's 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.

Corporate Governance and Internal Control
(continued)

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 2010 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 GIAD, 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 GIAD 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.

Corporate Governance and Internal Control
(continued)

E. STATEMENT ON INTERNAL CONTROL (continued)

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. Each operating unit has a number of functional departments and/or units that will be responsible for managing and monitoring these risks through limits, procedures and oversight. 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 2010, the Group has used the appropriate accounting policies and applied them consistently. The Directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

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

Directors' Report

for the financial year ended 30 June 2010

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 2010.

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 12 to the financial statements.

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

FINANCIAL RESULTS

	The Group	The Company
	RM'000	RM'000
Net profit after taxation and zakat:		
- Equity holders of the Company	846,848	149,757
- Minority interests	338,461	-
	1,185,309	149,757

DIVIDENDS

The dividends on ordinary shares paid or declared by the Company since the previous financial year ended 30 June 2009 were as follows:

(a) A first interim dividend of 9 sen per share less income tax of 25%, amounting to RM70,085,680 in respect of the financial year ended 30 June 2010, was paid on 21 December 2009.

(b) A second interim dividend of 8 sen per share less income tax of 25% and tax-exempt interim dividend of 6 sen per share, amounting to RM124,596,766 in respect of the financial year ended 30 June 2010, was paid on 29 June 2010.

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 51 to the financial statements.

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

Significant events subsequent to the balance sheet date are disclosed in Note 52 to the financial statements.

Directors' Report

for the financial year ended 30 June 2010
(continued)

RESERVES AND PROVISIONS

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

DIRECTORS

The Directors 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 Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd)	*(Independent Non-Executive Director)*
Ms Yvonne Chia	*(Non-Independent Non-Executive Director)*
Ms Lim Tau Kien *(Appointed w.e.f 8 April 2010)*	*(Independent Non-Executive Director)*
Ms Leong Bee Lian *(Appointed w.e.f 8 April 2010)*	*(Independent Non-Executive Director)*

In accordance with Article 94 of the Company's Articles of Association, Ms Lim Tau Kien and Ms Leong Bee Lian retire from the Board and being eligible, offer themselves for re-election.

In accordance with Article 115 of the Company's Articles of Association, Mr Choong Yee How and Ms Yvonne Chia 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 Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd) and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman shall retire at the forthcoming Annual General Meeting. YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd) and YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman, being eligible, had offered themselves for re-appointment.

YBhg Dato' Haji Kamarulzaman bin Mohammed would not be seeking for re-appointment and therefore shall retire at the conclusion of the forthcoming Annual General Meeting.

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:

	Shareholdings in which Directors have direct interests Number of ordinary shares/preference 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 July 2009**	**Acquired**	**Sold**	**As at 30 June 2010**
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	390,000	-	-	390,000
Guoco Group Limited	USD0.50	1,656,325	-	600,000	1,056,325
GuocoLand Limited	∞	20,062,965	-	10,062,965	10,000,000
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	19,506,780	-	-	19,506,780
GuocoLeisure Limited	USD0.20	735,000	-	-	735,000

Directors' Report

for the financial year ended 30 June 2010
(continued)

DIRECTORS' INTERESTS (continued)

	Shareholdings in which Directors have direct interests Number of ordinary shares/preference 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 July 2009	Acquired	Sold	As at 30 June 2010
Interests of YBhg Dato' Haji Kamarulzaman bin Mohammed in:					
Hong Leong Financial Group Berhad	1.00	52,200	-	-	52,200
Hong Leong Bank Berhad	1.00	479,000	-	-	479,000
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
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
Interests of Dr Poh Soon Sim in:					
Hong Leong Financial Group Berhad	1.00	3,234,000	-	-	3,234,000
Narra Industries Berhad	1.00	1,115,900	-	-	1,115,900
GuocoLand (Malaysia) Berhad	0.50	9,437,880	350,000	154,100	9,633,780
HLG Capital Berhad	1.00	1,000	-	-	1,000
Hong Leong Industries Berhad	0.50	1,100,700	-	-	1,100,700
Malaysian Pacific Industries Berhad	0.50	748,700	-	748,700	-
Hume Industries (Malaysia) Berhad	1.00	72,200	-	72,200	-
Interests of YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd) in:					
Hong Leong Bank Berhad	1.00	459,282	-	-	459,282
Hong Leong Financial Group Berhad	1.00	4,200	-	-	4,200
Interests of Ms Yvonne Chia in:					
Hong Leong Bank Berhad	1.00	100,000	180,000 ¥	-	280,000
		6,800,000 *	-	720,000 ~	
				180,000 ¥	5,900,000 *
GuocoLand (Malaysia) Berhad	0.50	10,000	-	-	10,000
Hong Leong Financial Group Berhad	1.00	10,000	-	-	10,000
Interest of Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	1.00	8,000,000 *	-	1,200,000 ~	6,800,000 *

Directors' Report

for the financial year ended 30 June 2010
(continued)

DIRECTORS' INTERESTS (continued)

	Shareholdings in which Directors have direct interests Number of ordinary shares/preference 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 July 2009	Acquired	Sold	As at 30 June 2010
Interest of Mr Quek Kon Sean in:					
Hong Leong Financial Group Berhad	1.00	2,500,000 *	-	375,000 ~	2,125,000 *

	Shareholdings in which Directors have indirect interests Number of ordinary shares/preference 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 July 2009	Acquired	Sold	As at 30 June 2010
Interests of YBhg Tan Sri Quek Leng Chan in:					
Hong Leong Company (Malaysia) Berhad	1.00	13,019,100	-	-	13,019,100
Hong Leong Fund Management Sdn Bhd	1.00	1,400,000	600,000	-	2,000,000 ###
Guoco Group Limited	USD0.50	235,198,529	600,000	-	235,798,529
GuocoLand Limited	∞	579,024,320	55,108,954 @@	20,000,000	614,133,274 @@
		20,973,293 *	817,139 *	13,328,486 *Δ	8,461,946 *
First Garden Development Pte Ltd	∞	63,000,000	-	-	63,000,000
Sanctuary Land Pte Ltd	∞	90,000	-	-	90,000
Beijing Minghua Property Development Co., Ltd (In Members' Voluntary Liquidation)	^	150,000,000	-	-	150,000,000
Shanghai Xinhaozhong Property Development Co., Ltd	#	19,600,000	-	-	19,600,000
Beijing Jiang Sheng Property Development Co., Ltd	^	247,600,000	2,400,000	-	250,000,000 ###
Nanjing Xinhaoning Property Development Co., Ltd	#	11,800,800	-	-	11,800,800
Nanjing Xinhaoxuan Property Development Co. Ltd	#	11,800,800	-	-	11,800,800
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	HKD1.00	140,008,659	-	-	140,008,659
Kwok Wah Hong Flour Company Limited	HKD100.00	9,800	-	-	9,800

Directors' Report

for the financial year ended 30 June 2010
(continued)

DIRECTORS' INTERESTS (continued)

	Shareholdings in which Directors have indirect interests Number of ordinary shares/preference 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 July 2009	Acquired	Sold	As at 30 June 2010
Interests of YBhg Tan Sri Quek Leng Chan in: (continued)					
M.C. Packaging Offshore Limited	HKD0.01	812,695	-	-	812,695
GuocoLand (Malaysia) Berhad	0.50	466,555,616 @@	-	-	466,555,616 @@
Guoman Hotel & Resort Holdings Sdn Bhd	1.00	277,000,000	-	-	277,000,000
JB Parade Sdn Bhd	1.00	28,000,000	-	-	28,000,000
	0.01	68,594,000 ##	-	-	68,594,000 ##
GuocoLeisure Limited	USD0.20	779,248,202	128,561,223	-	907,809,425
Bondway Properties Limited	GBP1.00	1,134,215 ¤	-	-	1,134,215 ¤
(In Members' Voluntary Liquidation)	GBP1.00	10,332 ¤¤	-	-	10,332 ¤¤
Guangzhou Lam Soon Food Products Limited	Ω	6,570,000	-	-	6,570,000
Hong Leong Financial Group Berhad	1.00	824,437,300	-	-	824,437,300
HLG Capital Berhad	1.00	92,590,545	107,072,682	4,400,000	195,263,227
Hong Leong Bank Berhad	1.00	965,745,100	1,994,500	-	967,739,600
Hong Leong Tokio Marine Takaful Berhad	1.00	65,000,000	-	-	65,000,000
Hong Leong Industries Berhad	0.50	195,413,037 @@	2,856,800	-	198,269,837 @@
Hong Leong Yamaha Motor Sdn Bhd	1.00	17,352,872	-	-	17,352,872
Guocera Tile Industries (Meru) Sdn Bhd	1.00	19,600,000	-	-	19,600,000
Hong Leong Maruken Sdn Bhd (In Members' Voluntary Liquidation)	1.00	1,750,000	-	-	1,750,000
Guocera Tile Industries (Labuan) Sdn Bhd	1.00	6,545,001	-	-	6,545,001
Varinet Sdn Bhd (In Members' Voluntary Liquidation)	1.00	10,560,627	-	-	10,560,627
RZA Logistics Sdn Bhd	1.00	7,934,247	-	-	7,934,247
Malaysian Pacific Industries Berhad	0.50	127,683,309	5,917,700	-	133,601,009
Carter Realty Sdn Bhd	1.00	7	-	-	7
Carsem (M) Sdn Bhd	1.00	84,000,000	-	-	84,000,000
	100.00	22,400 ##	-	-	22,400 ##
Hume Industries (Malaysia) Berhad	1.00	121,881,628	183,278,071 ~~	122,216,828 ✧	182,942,871 ###
Narra Industries Berhad	1.00	38,314,000	-	-	38,314,000

Directors' Report
for the financial year ended 30 June 2010
(continued)

DIRECTORS' INTERESTS (continued)

	Shareholdings in which Directors have indirect interests Number of ordinary shares/preference 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 July 2009	Acquired	Sold	As at 30 June 2010
Interests of Dr Poh Soon Sim in:					
Hong Leong Financial Group Berhad	1.00	878,810	-	70,000	808,810
	1.00	4,004,800 N1	200,000 N1	-	4,204,800 N1
Hong Leong Company (Malaysia) Berhad	1.00	207,750	-	-	207,750
Hong Leong Industries Berhad	0.50	26,000	-	-	26,000
		39,100 N1	-	-	39,100 N1
Hong Leong Bank Berhad	1.00	88,000	-	-	88,000
		50,000 N1	-	35,000 N1	15,000 N1
GuocoLand (Malaysia) Berhad	0.50	262,843	-	-	262,843
	0.50	4,553,700 N1	-	-	4,553,700 N1
Hume Industries Malaysia Berhad	1.00	318,600 N1	-	318,600 N1	-
GuocoLeisure Limited	USD0.20	12,354,000 N1	723,000 N1	13,077,000 N1	-
GuocoLand Limited	∞	-	777,000 N1	-	777,000 N1
Interests of YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman in:					
Hong Leong Financial Group Berhad	1.00	3,600 N1	-	-	3,600 N1
HLG Capital Berhad	1.00	100,000 N1	-	-	100,000 N1
Interests of YBhg Dato' Haji Kamarulzaman bin Mohammed in:					
Hong Leong Financial Group Berhad	1.00	43,200 N1	-	-	43,200 N1
Interest of Mr Quek Kon Sean in:					
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 Inclusive of redemption and cancellation of convertible bonds
@@ Inclusive of shares held by children who are not directors of the Company
\## Redeemable Preference Shares
\### Became a wholly-owned subsidiary during the financial year
¤ Ordinary-Voting Shares
¤¤ Ordinary-Non Voting Shares
¥ Exercise of Share Options
~ Share options lapsed
~~ Inclusive of acceptance received for shares in respect of voluntary take-over offer
✧ Acceptance of voluntary take-over offer
N1 Indirect interest through spouse and/or children pursuant to Section 134(12)(c) of the Companies Act, 1965

Directors' Report

for the financial year ended 30 June 2010
(continued)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in the financial statements or the fixed salary of a full-time employee of the Company or of 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 Bank.

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.

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.

Directors' Report

for the financial year ended 30 June 2010
(continued)

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

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 2010, 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.

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 51 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 2010 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 2010
(continued)

STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (continued)

(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 30 July 2010.

CHOONG YEE HOW
Director

YVONNE CHIA
Director

Kuala Lumpur
8 September 2010

Balance Sheets

as at 30 June 2010

		The Group		The Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Assets					
Cash and short term funds	2	17,181,501	19,500,176	12,041	2,791
Deposits and placements with banks and other financial institutions	3	7,698,751	5,726,818	-	-
Securities held at fair value through profit or loss	4	9,308,836	7,092,273	23,014	18,950
Available-for-sale securities	5	8,096,680	7,079,776	-	-
Held-to-maturity securities	6	6,866,864	6,566,779	-	-
Loans, advances and financing	7	38,522,242	35,498,266	-	-
Clients' and brokers' balances	8	155,623	220,152	-	-
Other receivables	9	2,646,389	1,856,989	6,475	8,494
Amount due from subsidiaries	48	-	-	282,038	55,259
Statutory deposits with Bank Negara Malaysia	11	398,666	368,564	-	-
Tax recoverable		6,119	12,056	4,700	11,390
Investment in subsidiary companies	12	-	-	2,278,996	2,048,249
Investment in associated company	13	1,172,175	1,045,285	-	-
Investment in jointly controlled entity	14	76,023	-	-	-
Deferred tax assets	15	176,138	215,179	-	-
Prepaid lease payments	16	17,260	10,123	-	-
Property and equipment	17	641,659	602,362	1,954	2,888
Investment properties	18	1,680	1,600	-	-
Goodwill arising on consolidation	19	574,408	572,265	-	-
Intangible assets	20	54,415	40,460	124	230
		93,595,429	86,409,123	2,609,342	2,148,251
Non-current assets held for sale	10	346,939	-	-	-
Total assets		93,942,368	86,409,123	2,609,342	2,148,251
Liabilities					
Deposits from customers	21	69,480,896	67,262,086	-	-
Deposits and placements of banks and other financial institutions	22	4,477,393	2,413,979	-	-
Bills and acceptances payable		304,140	251,386	-	-
Clients' and brokers' balances	24	262,415	279,029	-	-
Payables and other liabilities	25	4,942,138	3,268,607	5,230	6,291
Amount due to subsidiaries	48	-	-	22	100
Provision for claims		52,727	201,424	-	-
Provision for taxation		105,306	73,704	-	-
Borrowings	26	742,258	597,128	720,258	450,228
Subordinated obligations	27	650,454	729,566	-	-
Insurance funds	28	5,175,709	4,577,892	-	-
		86,193,436	79,654,801	725,510	456,619
Liabilities directly associated with non-current assets held for sale	10	320,102	-	-	-
Total liabilities		86,513,538	79,654,801	725,510	456,619

Balance Sheets

as at 30 June 2010
(continued)

		The Group		The Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Capital and reserves attributable to equity holders of the Company					
Share capital	29	**1,052,768**	1,052,768	**1,052,768**	1,052,768
Reserves	30	**4,185,954**	3,522,820	**896,814**	704,614
Treasury shares for ESOS scheme	31	**(78,171)**	(78,171)	**(65,750)**	(65,750)
		5,160,551	4,497,417	**1,883,832**	1,691,632
Minority interest		**2,268,279**	2,256,905	**-**	-
Total equity		**7,428,830**	6,754,322	**1,883,832**	1,691,632
Total equity and liabilities		**93,942,368**	86,409,123	**2,609,342**	2,148,251
Commitments and contingencies	42	**102,891,118**	78,596,910	**368,030**	250,000

Income Statements

for the financial year ended 30 June 2010

		The Group		The Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Interest income	32	2,587,017	2,955,612	1,275	1,769
Interest expense	33	(1,192,973)	(1,591,042)	(14,567)	(17,016)
Net interest income/(expense)		1,394,044	1,364,570	(13,292)	(15,247)
Income from Islamic banking business	34	184,837	176,341	-	-
		1,578,881	1,540,911	(13,292)	(15,247)
Non-interest income	35	851,577	729,032	229,591	285,204
		2,430,458	2,269,943	216,299	269,957
Overhead expenses	36	(1,050,137)	(973,414)	(14,773)	(17,465)
Operating profit before allowances		1,380,321	1,296,529	201,526	252,492
Allowances for losses on loans, advances and financing and other losses	37	(107,967)	(155,250)	-	-
Impairment of goodwill	19	-	(57,236)	-	-
Writeback of/(allowance for) impairment losses		7,447	(33,301)	(1,365)	-
		1,279,801	1,050,742	200,161	252,492
Share of results of associated company	13	143,575	99,462	-	-
Share of results of jointly controlled entity	14	(688)	-	-	-
Profit before taxation and zakat		1,422,688	1,150,204	200,161	252,492
Taxation and zakat	39	(237,379)	(187,877)	(50,404)	(52,814)
Net profit for the financial year		1,185,309	962,327	149,757	199,678
Attributable to:					
Equity holders of the Company		846,848	632,020	149,757	199,678
Minority interest		338,461	330,307	-	-
		1,185,309	962,327	149,757	199,678
Earnings per share attributable to ordinary equity holders of the Company (sen)					
- Basic/Fully diluted	40	81.8	61.0	14.4	19.2
Dividend per share (net)*	41	18.8	17.3	18.8	17.3

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

Statements of Changes in Equity

for the financial year ended 30 June 2010

The Group	Note	Share capital RM'000	Share premium RM'000	Treasury shares for ESOS scheme RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Other capital reserve RM'000	Share options reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
		← Attributable to equity holders of the Company									→		
At 1 July 2009													
- as previously reported		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
Prior year adjustment /Effect of changes in accounting policies	55	-	-	-	-	-	-	-	-	(80,996)	(80,996)	-	(80,996)
As restated		1,052,768	117,229	(78,171)	1,141,486	(19,429)	133,258	23,229	20,413	2,098,265	4,489,048	2,256,905	6,745,953
Currency translation differences		-	-	-	-	-	-	-	(23,587)	-	(23,587)	-	(23,587)
Net fair value changes in available-for-sale securities, net of tax		-	-	-	-	37,283	-	-	-	-	37,283	-	37,283
Income and expense recognised directly in equity		-	-	-	-	37,283	-	-	(23,587)	-	13,696	-	13,696
Net profit for the financial year		-	-	-	-	-	-	-	-	846,848	846,848	338,461	1,185,309
Total recognised income and expense for the financial year		-	-	-	-	37,283	-	-	(23,587)	846,848	860,544	338,461	1,199,005
Transfer to statutory reserve		-	-	-	48,776	-	-	-	-	(48,776)	-	-	-
Allocation of other reserves to minority interest		-	-	-	-	-	-	-	-	-	-	(327,087)	(327,087)
Dividends paid	41	-	-	-	-	-	-	-	-	(194,683)	(194,683)	-	(194,683)
Options charge arising from ESOS		-	-	-	-	-	-	5,068	-	-	5,068	-	5,068
Exercise of ESOS		-	-	-	-	-	-	(1,642)	-	2,716	1,074	-	1,074
Expenses on rights issue		-	-	-	-	-	-	-	-	(500)	(500)	-	(500)
At 30 June 2010		1,052,768	117,229	(78,171)	1,190,262	17,854	133,258	26,655	(3,174)	2,703,870	5,160,551	2,268,279	7,428,830

Statements of Changes in Equity

for the financial year ended 30 June 2010
(continued)

		Attributable to equity holders of the Company											
The Group	Note	Share capital RM'000	Share premium RM'000	Treasury shares for ESOS scheme RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Other capital reserve RM'000	Share options reserve RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
At 1 July 2008													
- as previously reported		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
Prior year adjustment	55	-	-	-	-	-	-	-	-	(72,627)	(72,627)	-	(72,627)
As restated		1,052,768	117,229	(73,176)	1,099,947	(11,256)	133,258	8,481	12,721	1,695,261	4,035,233	2,039,543	6,074,776
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	31	-	-	(4,995)	-	-	-	-	-	-	(4,995)	-	(4,995)
Allocation of other reserves to minority interest		-	-	-	-	-	-	-	-	-	-	(112,945)	(112,945)
Dividends paid	41	-	-	-	-	-	-	-	-	(179,108)	(179,108)	-	(179,108)
Options charge arising from ESOS		-	-	-	-	-	-	14,748	-	-	14,748	-	14,748
At 30 June 2009		1,052,768	117,229	(78,171)	1,141,486	(19,429)	133,258	23,229	20,413	2,106,634	4,497,417	2,256,905	6,754,322

Statements of Changes in Equity

for the financial year ended 30 June 2010
(continued)

		← Non-distributable				→	Distributable	
The Company	**Note**	**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**	**Total equity RM'000**
At 1 July 2009		**1,052,768**	**117,229**	**(65,750)**	**18,484**	**10,208**	**558,693**	**1,691,632**
Net profit for the financial year		-	-	-	-	-	**149,757**	**149,757**
Disposal of subsidiary	30	-	-	-	**236,507**	-	-	**236,507**
Dividends paid	41	-	-	-	-	-	**(194,683)**	**(194,683)**
Options charge arising from ESOS		-	-	-	-	**619**	-	**619**
At 30 June 2010		**1,052,768**	**117,229**	**(65,750)**	**254,991**	**10,827**	**513,767**	**1,883,832**
At 1 July 2008		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	41	-	-	-	-	-	(179,108)	(179,108)
Options charge arising from ESOS		-	-	-	-	4,446	-	4,446
At 30 June 2009		1,052,768	117,229	(65,750)	18,484	10,208	558,693	1,691,632

Consolidated Cash Flow Statements

for the financial year ended 30 June 2010

	Note	The Group 2010 RM'000	The Group 2009 RM'000
Cash flow from operating activities			
Profit before taxation and zakat		1,422,688	1,150,204
Adjustments for:			
Unearned premium reserves		3,206	(38,261)
Life fund - underwriting surplus		782,939	492,629
Depreciation of property and equipment		55,303	51,460
Amortisation of prepaid lease payments		603	127
Amortisation of intangible assets		18,058	18,116
Gain on sale of property and equipment		(36,005)	(1,428)
Gain from redemption of held-to-maturity securities		(1,318)	(316)
Gain from disposal of available-for-sale securities		(13,242)	(28,505)
Gain from disposal of securities held at fair value through profit or loss		(29,850)	(4,264)
Net unrealised loss/(gain) on revaluation of securities held at fair value through profit or loss and derivative financial instruments		10,130	(15,210)
Net realised loss on fair value changes arising from fair value hedges		(513)	14,851
Net unrealised gain on fair value changes arising from fair value hedges		(3,472)	(15,858)
(Writeback of)/impairment losses on available-for-sale securities		(7,447)	33,301
Allowances for losses on loans, advances and financing		206,250	268,087
Interest in suspense		16,664	14,903
Accretion of discount less amortisation of premium		(153,614)	(203,473)
Interest expense on borrowings		17,855	21,212
Interest expense on subordinated obligations		35,089	36,631
Interest income from securities held at fair value through profit or loss		(61,242)	(22,078)
Interest income from available-for-sale securities		(146,978)	(103,132)
Interest income from held-to-maturity securities		(223,945)	(145,010)
Dividend income from available-for-sale, held-to-maturity and held at fair value securities through profit or loss		(25,439)	(11,994)
Option charge arising from ESOS		5,068	14,748
Surplus transferred from life insurance business		(175,000)	(57,000)
Impairment of goodwill		-	57,236
Share of results of jointly controlled entity		688	-
Share of results of associated company		(143,575)	(99,462)
		130,213	277,310

Consolidated Cash Flow Statements

for the financial year ended 30 June 2010
(continued)

	Note	The Group 2010 RM'000	The Group 2009 RM'000
Operating profit before working capital changes		1,552,901	1,427,514
(Increase)/decrease in operating assets			
Deposits and placements with banks and other financial Institutions		(2,150,906)	(3,434,012)
Securities purchased under resale agreements		-	972,742
Securities held at fair value through profit or loss		(2,131,020)	(2,170,273)
Loan, advances and financing		(3,246,890)	(705,471)
Clients' and brokers' balances		64,529	(17,965)
Other receivables		(827,232)	567,902
Statutory deposits with Bank Negara Malaysia		(30,102)	946,900
Increase/(decrease) in operating liabilities			
Deposits from customers		2,218,810	5,200,561
Deposits and placements of banks and other financial institutions		2,063,414	(3,958,597)
Bills and acceptances payable		52,754	(159,797)
Payables and other liabilities		1,568,866	409,185
Provision for claims		38,323	2,338
Clients' and brokers' balances		(16,614)	45,212
		(2,396,068)	(2,301,275)
Net cash used in operating activities		(843,167)	(873,761)
Proceeds from exercising of ESOS		12,235	-
Income tax paid		(238,738)	(269,862)
Interest received		960	234
		(225,543)	(269,628)
Net cash flows used in operating activities		(1,068,710)	(1,143,389)
Cash flows from investing activities			
Net (purchases)/proceeds of available-for-sale securities		(1,044,642)	1,381,084
Net purchases of held-to-maturity securities		(137,706)	(3,234,473)
Interest received on available-for-sale and held-to-maturity securities		370,923	248,142
Dividends received on available-for-sale, held-to-maturity securities and held at fair value securities through profit or loss		18,635	6,998
Dividends received from associated company		16,682	-
Proceeds from disposal of property and equipment		56,100	3,633
Proceeds from disposal of intangible assets		28	30
Proceeds from disposal of prepaid lease payments		1,280	-
Purchase of property and equipment		(146,692)	(150,649)
Purchase of intangible assets - computer software		(36,649)	(10,679)
Purchase of treasury shares in company		-	(4,995)
Purchase of treasury shares in subsidiary company		-	(27,574)
Acquisition of subsidiaries	54	-	(75,777)
Investment in jointly controlled entity		(76,711)	-
Investment in associated company		-	(904,821)
Net cash flows used in investing activities		(978,752)	(2,769,081)

Consolidated Cash Flow Statements

for the financial year ended 30 June 2010
(continued)

		The Group	
	Note	2010 RM'000	2009 RM'000
Cash flows from financing activities			
Interest paid on subordinated obligations		(36,304)	(35,546)
Interest paid on borrowings		(17,855)	(21,212)
Repayment of revolving credit		(124,900)	-
Repayment of medium term notes and commercial papers		(199,721)	(5,486)
Proceeds of syndicated loans		-	152,300
Drawdown on long term loan		469,751	
Proceeds from rights issue		15,876	-
Dividends paid to			
- shareholders of the Company		(194,683)	(179,108)
- minority shareholders		(87,962)	(89,554)
Net cash used in financing activities		(175,798)	(178,606)
Net decrease in cash and cash equivalents		(2,223,260)	(4,091,076)
Effects of exchange rate changes		(101,484)	65,508
Cash and cash equivalents at beginning of financial year		19,290,642	23,316,210
Cash and cash equivalents at end of financial year		16,965,898	19,290,642
Cash and cash equivalents comprise:			
Cash and short term funds	2	17,181,501	19,500,176
Less: Fixed deposits placed with a bank during the tenure of term loans taken		(8,400)	-
Remisiers' and clients' trust monies		(207,203)	(209,534)
		16,965,898	19,290,642

Company Cash Flow Statements

for the financial year ended 30 June 2010

	Note	The Company 2010 RM'000	The Company 2009 RM'000
Cash flows from operating activities			
Profit before taxation		200,161	252,492
Adjustments for:			
Gain on sale of property and equipment		(212)	(51)
Net realised (gain)/loss on sale of securities held at fair value through profit or loss		(11)	9,411
Net unrealised loss/(gain) on revaluation of securities held at fair value through profit or loss		2,230	(6,317)
(Gain)/loss on disposal of subsidiary		1,188	(1,720)
Depreciation of property and equipment		756	845
Amortisation of intangible assets		123	126
Interest expense		14,567	17,016
Interest income		(1,275)	(1,769)
Impairment loss in subsidiary		1,365	-
Dividend income from securities held at fair value through profit or loss		(419)	(686)
Dividend income from subsidiary companies		(228,378)	(278,822)
Option charge arising from ESOS		619	4,446
		(209,447)	(257,521)
Operating loss before working capital changes		(9,286)	(5,029)
Increase in receivables		(235,089)	(43,798)
Securities held at fair value through profit or loss		(4,039)	(18,975)
Decrease in payables		(1,139)	(4,544)
		(240,267)	(67,317)
Cash used in operations		(249,553)	(72,346)
Income tax refund		13,380	7,615
Interest received		960	234
		14,340	7,849
Net cash used in operating activities		(235,213)	(64,497)
Cash flows from investing activities			
Dividend income from subsidiary companies		171,284	219,991
Dividends received on securities held at fair value through profit or loss		419	686
Proceeds from disposal of property and equipment		438	77
Purchase of property and equipment		(48)	(345)
Purchase of intangible assets - computer software		(17)	(4)
Increase in investment in subsidiaries		(242,073)	-
Transfer of treasury shares		-	5,510
Proceeds from disposal of subsidiary		245,280	1,820
Net cash generated from investing activities		175,283	227,735

Company Cash Flow Statements

for the financial year ended 30 June 2010
(continued)

		The Company	
	Note	2010 RM'000	2009 RM'000
Cash flows from financing activities			
Interest paid on borrowings		(14,567)	(17,552)
Drawdown of revolving credit		-	30,000
Drawdown of term loans		469,751	-
Repayment of medium term notes and commercial papers		(199,721)	(5,486)
Dividends paid to shareholders of the Company		(194,683)	(179,108)
Net cash used in financing activities		60,780	(172,146)
Net increase/(decrease) in cash and cash equivalents		850	(8,908)
Cash and cash equivalents at beginning of financial year		2,791	11,699
Cash and cash equivalents at end of financial year		3,641	2,791
Cash and cash equivalents comprise:			
Cash and short term funds	2	12,041	2,791
Less: Fixed deposits placed with a bank during the tenure of term loans taken		(8,400)	-
		3,641	2,791

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010

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 53.

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

FRS 8 "Operating Segments" (effective from 1 July 2009) replaces FRS 114_{2004} Segment Reporting. The new standard requires a 'management approach', under which segment information is reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. The improvement to FRS 8 (effective from 1 January 2010) clarifies that entities that do not provide information about segment assets to the chief operating decision-maker will no longer need to report this information. Prior year comparatives must be restated. The adoption of the new accounting standard does not have any significant financial impact on the results of the Group and the Company.

(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 following new and restated standards, amendments to published 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.

- The revised FRS 3 "Business Combinations" (effective prospectively from 1 July 2010). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The application of this standard is not expected to have a material impact on the financial statement of the Group and the Company.

- The revised FRS 101 "Presentation of Financial Statements" (effective from 1 January 2010) prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. 'Non-owner changes in equity' are to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The application of this standard is not expected to have a material impact on the financial statement of the Group and the Company.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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

- The revised FRS 127 "Consolidated and Separate Financial Statements" (effective prospectively from 1 July 2010) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The application of this standard is not expected to have a material impact on the financial statement of the Group and the Company.

- FRS 139 "Financial Instruments: Recognition and measurement" (effective from 1 January 2010) establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted under strict circumstances. The amendments to FRS 139 provide further guidance on eligible hedged items. The amendment provides guidance for two situations. On the designation of a one-sided risk in a hedged item, the amendment concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. The improvement to FRS 139 clarifies that the scope exemption in FRS 139 only applies to forward contracts but not options for business combinations that are firmly committed to being completed within a reasonable timeframe.

- FRS 7 "Financial instruments: Disclosures" (effective from 1 January 2010) provides information to users of financial statements about an entity's exposure to risks and how the entity manages those risks. The improvement FRS 7 clarifies that entities must not present total interest income and expense as a net amount within finance costs on the face of the income statement.

- FRS 4 "Insurance contract" (effective from 1 January 2010) allows entities to continue with their existing accounting policies for insurance contracts if those policies meet certain minimum criteria. One of the minimum criteria is that the amount of the insurance liability is subject to a liability adequacy test.

  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 the Company:

  - FRS 139 "Financial Instruments: Recognition and Measurement", Amendments to FRS 139, Improvement to FRS 139 and IC Interpretation 9
  - FRS 4 "Insurance Contracts"
  - FRS 7 "Financial Instruments: Disclosures" and Improvement to FRS 7

  BNM has prescribed the use of an alternative basis for collective assessment of impairment for a transitional period for purpose of complying with the collective assessment of impairment requirement in FRS 139.

- IC Interpretation 9 "Reassessment of Embedded Derivatives" (effective from 1 January 2010) 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 and the Company.

- 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 and the Company.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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

- Amendments to FRS 2 "Share-based Payment: Vesting Conditions and Cancellations" (effective from 1 January 2010) 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 similiar 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.

- IC Interpretation 11 - "FRS 2 Group and Treasury Share Transactions" (effective from 1 January 2010) 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.

- IC Interpretation 13 "Customer Loyalty Programmes" (effective from 1 January 2010) clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The application of this amendment is not expected to have a material impact on the financial statements of Group and the Company.

- IC Interpretation 14 "FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1 January 2010) provides guidance on assessing the limit in FRS 119 on the amount of the surplus that can be recognised as an asset. The application of this amendment is not expected to have a material impact on the financial statements of Group and the Company.

Improvements to existing MASB standards (effective for accounting periods beginning on or after 1 January 2010) are as follows:

- FRS 5 Non-current Assets Held for Sale and Discontinued Operations. Improvement effective from 1 January 2010 clarifies that FRS 5 disclosures apply to non-current assets or and discontinued operations. Improvement effective from 1 July 2010 clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met.

- FRS 107 Statement of Cash Flows (effective from 1 January 2010) clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities.

- FRS 110 Events after the Balance Sheet Date (effective from 1 January 2010) reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.

- FRS 116 Property, Plant and Equipment (effective from 1 January 2010) requires entities whose ordinary activities comprise of renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to FRS 107 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

- FRS 117 Leases (effective from 1 January 2010) clarifies that the default classification of the land element in a land and building lease is no longer an operating lease. As a result, leases of land should be classified as either finance or operating, using the general principles of FRS 117.

- FRS 118 Revenue (effective from 1 January 2010) provides more guidance when determining whether an entity is acting as a ‘principal’ or as an ‘agent’.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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

Improvements to existing MASB standards (effective for accounting periods beginning on or after 1 January 2010) are as follows: (continued)

- FRS 127 Consolidated and Separate Financial Statements (effective from 1 January 2010) clarifies that where an investment in a subsidiary that is accounted for under FRS 139 is classified as held for sale under FRS 5, FRS 139 would continue to be applied.

- FRS 128 Investments in associates and FRS 131 Interests in joint ventures (consequential amendments to FRS 132 Financial instruments: Presentation and FRS 7 Financial instruments: Disclosure) (effective from 1 January 2010) clarify that where an investment in associate or joint venture is accounted for in accordance with FRS 139, only certain, rather than all disclosure requirements in FRS 128 or FRS 131 need to be made in addition to disclosures required by FRS 132 and FRS 7. The application of this standard is not expected to have a material impact on the financial statements of Group and the Company.

- FRS 134 Interim Financial Reporting (effective from 1 January 2010) clarifies that basic and diluted earnings per share ('EPS') must be presented in an interim report only in the case when the entity is required to disclose EPS in its annual report.

- FRS 138 Intangible Assets (effective from 1 January 2010) clarifies that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for mail order catalogues when the entity has access to the catalogues and not when the catalogues are distributed to customers. It confirms that the unit of production method of amortisation is allowed.

  The application of the above amendments are not expected to have a material impact on the financial statements of Group and the Company.

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_{2004} "Business Combinations";

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

B ECONOMIC ENTITIES IN THE GROUP (continued)

(i) Subsidiaries (continued)

- internal group reorganisations, as defined in FRS 122_{2004}, 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;
  - the minorities' share of net assets of the Group is not altered by the transfer; and
- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by FRS 122_{2004} 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) Investment in jointly controlled entity

The Group treats as a jointly controlled entity, corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Group with one or more parties where the strategic financial and operating decisions relating to the entities require unanimous consent of the parties sharing control.

Investment in a jointly controlled entity 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 Group recognises interests in jointly controlled entities using the equity method.

The Group's share of the post acquisition results of the jointly controlled entity is recognised in the income statement and its share of post acquisition movements is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

(iii) 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.

Summary of Significant Accounting Policies
for the financial year ended 30 June 2010
(continued)

B ECONOMIC ENTITIES IN THE GROUP (continued)

(iii) Associates (continued)

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

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.

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 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

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

D PROPERTY AND EQUIPMENT AND DEPRECIATION (continued)

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.

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

G LEASES (continued)

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 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 was 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.

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

H SECURITIES PORTFOLIO (continued)

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

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.

I 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.

J FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of carrying amount and fair value less costs to sell.

K DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

K DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (continued)

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.

(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.

L BILLS AND ACCEPTANCES PAYABLE

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

M 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.

Summary of Significant Accounting Policies
for the financial year ended 30 June 2010
(continued)

N 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.

O UNEARNED PREMIUM RESERVES

Premium liabilities

Premium liabilities refer to the higher of:

(i) the aggregate of the unearned premium reserves ("UPR"); or

(ii) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the provision of risk margin for adverse deviation ("PRAD") calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.

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. In determining the UPR at the balance sheet date, the method that most accurately reflects the actual unearned premium is used, as follows:

(i) 25% method for marine and aviation cargo, and transit business;

(ii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and

(iii) time apportionment method for non-annual policies (including long term inwards treaty business) reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

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.

Claims liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate 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, incurred but not reported at the balance sheet date, based on an actuarial valuation with a PRAD at a 75% confidence level as required by BNM, based on actuarial valuation.

The RBC Framework introduced new features in the estimation of general insuirance claims liabilities such as allowing discounting and diversification as well as requiring the actuary to take into account, inflation. In addition, prior to 1 January 2009, claims handling costs were not included in the computation of the outstanding claims provision.

The estimation of the claims liabilities involves projection of the Company's future claims experience based on past and current claims experience.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

O UNEARNED PREMIUM RESERVES (continued)

Claims liabilities (continued)

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from the actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience.

These uncertainties arise from changes in underlying risks, changes in spread of risk, claims settlement as well as uncertainties in the projection model and underlying assumptions.

Acquisition costs

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

P 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) 1/365th 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.

Q 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:-

(a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and

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

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

R LIFE POLICYHOLDERS' FUND

Prior to 1 July 2009, Life insurance liabilities were assessed using prescribed fixed interest rates for discounting purposes, while future benefits and future income were assessed without considering the relevant expenses, and fixed mortality assumptions.

The Risk-Based Capital ("RBC") Framework effective 1 July 2009 had introduced a new measurement basis for Life insurance liabilities, requiring insurers to assess insurance liabilities based on current assumptions, reflecting the best estimate at the time, increased with a margin for risk and adverse deviation. This includes the consideration of all cash flows, including estimates of future expenses.

The effects of the change in accounting policy arising from the implementation of the RBC Framework were made to the opening balances of the Group as at 1 July 2009 as allowed under the transitional provisions of the RBC Framework, are disclosed in Note 55.

S 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.

T 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.

U 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

V 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.

W 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

W RECOGNITION OF FEES AND OTHER INCOME (continued)

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.

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.

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.

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.

X 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.

Y 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.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

Y ALLOWANCES FOR LOSSES ON LOANS, ADVANCES AND FINANCING, AND OTHER LOSSES (continued)

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. In 2008, 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.

Z EMPLOYEE BENEFITS

Short term employee benefits

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

Defined contribution plans

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

The Group and the Company 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.

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.

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 31 of the financial statements.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

AA 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.

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.

AB CASH AND CASH EQUIVALENTS

Cash and cash equivalents are cash and short terms funds held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value, net of monies that are not readily available for use by the Group and the Company.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

AC IMPAIRMENT OF NON-FINANCIAL 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.

AD 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.

AE SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

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.

AF 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.

(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 impairment loss is reversed by adjusting the allowance account. The amount of the recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Summary of Significant Accounting Policies

for the financial year ended 30 June 2010
(continued)

AF IMPAIRMENT OF SECURITIES PORTFOLIO (continued)

(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.

AG NON-CURRENT ASSETS/DISPOSAL GROUPS HELD FOR SALE

Non-current assets/disposal groups are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Notes to the Financial Statements

for the financial year ended 30 June 2010

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 Berhad 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 12 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 and principal place of business 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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	**890,109**	806,764	**51**	291
Money at call and deposit placements maturing within one month	**16,291,392**	18,693,412	**11,990**	2,500
	17,181,501	19,500,176	**12,041**	2,791

Included in cash and short term funds of the Group are accounts held in trust for clients' and dealers' representatives amounting to RM215,603,000 (2009: RM209,534,000).

As at 30 June 2010, the Company has placed a fixed deposit of RM8.4 million with a bank for the RM200 million and RM1.2 billion term loan facilities and has agreed not to withdraw the fixed deposits during the tenure. The bank has a right to set-off any sums placed by the Company in the fixed deposit account.

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2010 RM'000	2009 RM'000
Bank Negara Malaysia ("BNM")	**1,800,000**	3,170,600
Licensed banks	**4,704,511**	2,008,671
Licensed investment banks	**370,000**	-
Other financial institutions	**824,240**	547,547
	7,698,751	5,726,818

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

4 SECURITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Held-for-trading				
Money market instruments				
Bank Negara Malaysia bills	2,606,431	1,738,604	-	-
Malaysian Government treasury bills	251,599	458,307	-	-
Malaysian Government securities	1,107,934	838,842	-	-
Malaysian Government investment certificates	1,116,703	136,143	-	-
Bankers' acceptances and Islamic accepted bills	2,771,744	2,983,607	-	-
Negotiable instruments of deposit	784,708	887,971	-	-
Khazanah bonds	-	14,922	-	-
Cagamas bonds/notes	254,998	-	-	-
Private debt securities	190,544	-	-	-
	9,084,661	7,058,396	-	-
Quoted securities				
Shares quoted in Malaysia	7,071	5,801	-	-
Shares quoted outside Malaysia	14,184	-	-	-
Unit trust investments	23,758	19,293	23,014	18,950
Foreign currency bonds	118,292	8,783	-	-
	163,305	33,877	23,014	18,950
Unquoted securities				
Private debt securities	60,870	-	-	-
	9,308,836	7,092,273	23,014	18,950

In the last 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 as at 30 June 2009 from the held-for-trading category to the available-for-sale category as at the date of reclassification are RM58,052,000 for the Group. There was no such reclassification in the financial year ended 30 June 2010.

Included in the non-interest income (Note 35) is the net losses arising from the change in fair value recognised in the income statement in respect of the reclassified securities:

	The Group	
	2010 RM'000	2009 RM'000
Net fair value loss	(17,173)	(18,531)

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

5 AVAILABLE-FOR-SALE SECURITIES

	The Group	
	2010 RM'000	2009 RM'000
Money market instruments		
Government treasury bills	533,551	379,600
Malaysian Government securities	1,571,027	2,074,034
Malaysian Government investment certificates	2,123,648	728,237
Singapore government securities	-	24,601
Other Government securities	51,910	94,384
Khazanah bonds	-	9,948
Cagamas bonds	129,476	162,084
	4,409,612	3,472,888
Quoted securities		
Shares quoted in Malaysia	491,063	421,699
Shares quoted outside Malaysia	52,439	923
Warrants quoted in Malaysia	35	-
Loan stocks quoted in Malaysia	1,797	1,540
Unit trust investments	86,920	75,298
Foreign currency bonds	513,672	979,272
	5,555,538	4,951,620
Unquoted securities		
Shares in Malaysia	7,332	4,837
Foreign currency bonds	5,015	-
Private and Islamic debt securities	2,528,795	2,123,319
	8,096,680	7,079,776

Included in the available-for-sale securities are securities transferred from the held-for-trading category in the previous financial year, with the following fair value as at 30 June:

	The Group	
	2010 RM'000	2009 RM'000
Fair value	75,454	60,750

The Group has designated fair value hedges on its Malaysian Government securities and Malaysian Government investment certificates portfolio using interest rate swaps. The total fair value loss of the said interest rate swaps relating to the hedges as at 30 June 2010 amounted to RM14,674,195 (2009: RM Nil).

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

6 HELD-TO-MATURITY SECURITIES

	The Group	
	2010 RM'000	2009 RM'000
Money market instruments		
Malaysian Government securities	**4,144,712**	1,670,241
Malaysian Government investment certificates	**1,312,548**	105,514
Cagamas bonds	**279,872**	279,873
Negotiable instruments of deposit	**690,588**	4,073,323
Other government securities	**3,374**	-
	6,431,094	6,128,951
Unquoted securities		
Shares*	**37,791**	38,133
Loan stocks	**5,442**	8,122
Private and Islamic debt securities	**407,423**	408,150
	6,881,750	6,583,356
Accumulated impairment losses	**(14,886)**	(16,577)
	6,866,864	6,566,779

* As allowed under revised BNM/GP8

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

7 LOANS, ADVANCES AND FINANCING

	The Group	
	2010 RM'000	2009 RM'000
Overdrafts	**2,036,810**	2,091,226
Term loans/financing:		
- Housing loans/financing	**22,534,948**	20,496,440
- Syndicated term loans/financing	**2,270,838**	1,685,228
- Hire purchase receivables	**5,650,823**	5,829,968
- Lease receivables	**11,866**	16,418
- Other term loans/financing	**2,263,522**	1,775,639
Credit/charge card receivables	**2,210,438**	2,017,519
Bills receivable	**268,725**	211,019
Trust receipts	**98,419**	92,982
Policy and premium loans	**655,246**	620,281
Claims on customer under acceptance credits	**3,619,054**	3,230,902
Block discounting	**8,244**	8,218
Revolving credit	**1,393,605**	1,250,892
Staff loans/financing	**99,531**	96,686
Other loans/financing	**87,416**	100,014
	43,209,485	39,523,432
Less:		
Unearned interest and income	**(3,876,159)**	(3,219,240)
Gross loans, advances and financing	**39,333,326**	36,304,192
Fair value changes arising from fair value hedges	**-**	56,892
Unamortised fair value changes arising from terminated fair value hedges	**46,725**	13,381
Less:		
Allowance for bad and doubtful debts and financing		
- specific	**(278,191)**	(330,119)
- general	**(579,618)**	(546,080)
Total net loans, advances and financing	**38,522,242**	35,498,266

The Group has previously designated fair value hedges on certain receivables using interest rate futures and interest rate swaps. The fair value hedges were discontinued during the financial year. The total fair value gain of the said interest rate futures and interest rate swaps relating to these hedges at 30 June 2009 amounted to RM38,321,972.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

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

	The Group	
	2010 RM'000	2009 RM'000
Maturing within:		
- one year	11,200,970	10,046,987
- one year to three years	2,737,654	2,771,427
- three years to five years	3,050,511	2,926,024
- over five years	22,344,191	20,559,754
Gross loans, advances and financing	39,333,326	36,304,192

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

	The Group	
	2010 RM'000	2009 RM'000
Domestic non-bank financial institutions other than stockbroking companies	178,501	86,327
Domestic business enterprises:		
- small medium enterprises	3,349,519	3,250,429
- others	8,347,349	7,131,298
Government and statutory bodies	278	369
Individuals	26,220,188	24,721,866
Other domestic entities	14,395	16,185
Foreign entities	1,223,096	1,097,718
Gross loans, advances and financing	39,333,326	36,304,192

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

	The Group	
	2010 RM'000	2009 RM'000
Fixed rate		
- Housing loans/financing	530,012	673,204
- Hire purchase receivables	4,924,898	5,087,484
- Credit card	2,210,438	2,017,519
- Other fixed rate loan/financing	1,771,408	1,703,209
Variable rate		
- Base lending rate plus	25,141,613	23,240,974
- Cost plus	4,682,310	3,531,706
- Other variable rates	72,647	50,096
Gross loans, advances and financing	39,333,326	36,304,192

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

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

	The Group	
	2010 RM'000	2009 RM'000
Purchase of securities	476,082	486,955
Purchase of transport vehicles	4,834,160	4,848,428
Residential property (Housing)	14,930,332	13,922,382
Non-residential property	4,436,355	4,257,268
Personal use	2,994,401	2,710,071
Credit card	2,210,438	2,017,519
Purchase of consumer durables	62	54
Construction	298,512	448,043
Working capital	8,449,753	6,989,520
Other purpose	703,231	623,952
Gross loans, advances and financing	39,333,326	36,304,192

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

	The Group	
	2010 RM'000	2009 RM'000
Purchase of securities	12,952	13,285
Purchase of transport vehicles	40,252	48,996
Residential property (Housing)	201,359	235,867
Non-residential property	55,633	62,761
Personal use	53,792	56,872
Credit card	27,859	36,446
Construction	15,907	32,662
Working capital	321,669	315,555
Non-performing loans, advances and financing	729,423	802,444

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

7 LOANS, ADVANCES AND FINANCING (continued)

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

	The Group	
	2010 RM'000	**2009 RM'000**
At 1 July	**802,444**	840,402
Non-performing during the financial year	**2,910,248**	2,793,986
Performing during the financial year	**(2,482,001)**	(2,314,165)
Amount written back in respect of recoveries	**(287,549)**	(257,924)
Amount written off	**(211,708)**	(261,211)
Amount arising from acquisition of SBBS Securities Sdn Bhd ("SBBS")	**-**	1,114
Exchange differences	**(2,011)**	242
At 30 June	**729,423**	802,444
Specific allowance	**(278,191)**	(330,119)
Net non-performing loans, advances and financing	**451,232**	472,325
Ratio of non-performing loans to total loans, advances and financing net of specific allowance	**1.2%**	1.3%

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

	The Group	
	2010 RM'000	**2009 RM'000**
Specific allowance		
At 1 July	**330,119**	345,781
Allowances made during the financial year	**289,510**	317,495
Amount written back in respect of recoveries	**(128,463)**	(73,641)
Amount written off	**(211,708)**	(260,857)
Amount arising from acquisition of SBBS	**-**	1,114
Exchange differences	**(1,267)**	227
At 30 June	**278,191**	330,119
General allowance		
At 1 July	**546,080**	526,957
Net allowances made during the financial year	**34,135**	17,892
Amount arising from acquisition of Southern Investment Bank Berhad ("SIBB")	**-**	524
Allowances arising from loans and advances acquired from SBBS	**-**	178
Exchange differences	**(597)**	529
At 30 June	**579,618**	546,080
(as % of total loans, advances and financing, less specific allowance)	**1.5%**	1.5%

Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

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 clients, amount due from brokers and contra losses and trade receivables from insurance clients.

	The Group	
	2010 RM'000	**2009 RM'000**
Performing accounts	**155,489**	266,862
Non-performing accounts - Bad	**39,421**	73,406
- Doubtful	**288**	53
	195,198	340,321
Less: Allowances for bad and doubtful debts		
- specific	**(37,043)**	(73,432)
- general	**(1,905)**	(50)
- interest in suspense	**(627)**	(46,687)
	155,623	220,152

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

	The Group	
	2010 RM'000	**2009 RM'000**
Specific allowance		
At 1 July	**73,432**	76,032
Allowances made during the financial year	**831**	-
Allowances written back during the financial year	**(417)**	(2,600)
Allowances written off	**(36,803)**	-
At 30 June	**37,043**	73,432
General allowance		
At 1 July	**50**	125
Allowances made during the financial year	**1,896**	43
Allowances written back during the financial year	**(41)**	(118)
At 30 June	**1,905**	50
Interest-in-suspense		
At 1 July	**46,687**	43,994
Interest suspended during the financial year	**5,387**	2,693
Interest suspended written off	**(51,447)**	-
At 30 June	**627**	46,687

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

9 OTHER RECEIVABLES

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Foreclosed properties	1,277	1,875	-	-
Interest receivable	215,058	130,742	-	-
Amount due from other related companies	290	895	10	9
Other debtors, deposits and prepayments	697,490	362,121	2,342	2,118
Investment link business assets	432,064	367,675	-	-
General and family takaful fund assets (Note (a))	259,197	217,337	-	-
Derivative financial instruments (Note 23)	1,041,013	776,344	4,123	6,367
	2,646,389	1,856,989	6,475	8,494

(a) General and family takaful fund assets

	The Group		
	2010		
	General Takaful Fund RM'000	Family Takaful Fund RM'000	Total RM'000
Assets			
Cash and bank balances	871	2,801	3,672
Investments	2,229	19,544	21,773
Receivables	7,866	5,744	13,610
Investment-linked business assets	-	220,142	220,142
	10,966	248,231	259,197

	The Group		
	2009		
	General Takaful Fund RM'000	Family Takaful Fund RM'000	Total RM'000
Assets			
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

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

10 NON-CURRENT ASSETS/DISPOSAL GROUPS HELD FOR SALE

The non-curent assets and liabilities directly associated with non-current assets held for sale is in respect of the proposed sale of the General Insurance Business to MSIG Insurance (Malaysia) Bhd ("MSIM") following the signing of a Business Transfer Agreement ("BTA") between HLA Holdings Sdn Bhd ("HLAH") and MSIM on 18 June 2010. The disposal is expected to be completed by 30 September 2010.

Accordingly, the related assets and liabilities of the General Insurance Business identified for disposal have been classified under non-current assets held for sale and liabilities directly associated with non-current assets classified as held for sale.

The components of non-current assets held for sale and liabilities directly associated with non-current assets classified as held for sale and the related net cash flows attributable to the discontinued operations are as follows:

(i) Non-current assets held for sale comprise of:

	2010 RM'000
Property, plant and equipment (Note 17)	12,719
Prepaid lease payments	757
Intangible assets	1,560
Available-for-sale securities	108,136
Fixed and call deposits	1,581
Receivables	44,794
Cash and bank balances	177,392
Total	346,939

(ii) Liabilities directly associated with non-current assets classified as held for sale comprise of:

	2010 RM'000
Claims liabilities	187,020
Payables	43,953
Premium liabilities	89,129
Total	320,102

(iii) Net cash flows attributable to the discontinued operations comprise of:

	2010 RM'000
Net inflow from operating activities	1,174
Net outflow from operating activities	(3,264)
Total net cash outflows	(2,090)

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

10 NON-CURRENT ASSETS/DISPOSAL GROUPS HELD FOR SALE (continued)

(iv) Analysis of the result of discontinued operations is as follows:

	2010 RM'000
Income	85,335
Expenses	(52,045)
Operating profit	33,290
Allowances for losses on loans, advances and financing and other losses	(1,895)
Profit before taxation	31,395
Taxation	(6,415)
Net profit for the financial year from discontinued operations	24,980

11 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.

12 INVESTMENT IN SUBSIDIARY COMPANIES

	The Company	
	2010 RM'000	2009 RM'000
Subsidiary companies		
Unquoted shares at cost	403,152	273,010
Shares quoted in Malaysia at cost	1,875,844	1,775,239
	2,278,996	2,048,249
At 1 July	2,048,249	2,048,349
Add: Subscription of rights shares of a subsidiary	100,605	-
Add: Subscription of shares in a subsidiary	400,000	-
Less: Allowance for impairment	(1,365)	-
Less: Disposal of subsidiary	(268,493)	(100)
At 30 June	2,278,996	2,048,249
Market value		
Shares quoted in Malaysia	8,375,385	5,530,448

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

12 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The subsidiary companies of the Company are as follows:

Name of company	Place of incorporation	Effective percentage of ownership 2010 %	2009 %	Principal activities
(a) HLA Holdings Sdn Bhd and its subsidiary companies:	Malaysia	**100.00**	100.00	Investment holding
(i) Hong Leong Assurance Berhad and its subsidiary:	Malaysia	**100.00**	100.00	Life and general insurance business
- Allstate Health Benefits Sdn Bhd	Malaysia	**100.00**	100.00	In member's voluntary liquidation
- Unincorporated trust for ESOS[Ω]*	Malaysia	**-**	-	Special purpose vehicle for ESOS
(ii) Hong Leong Insurance (Asia) Limited[+]	Hong Kong	**100.00**	100.00	General insurance business
(iii) Hong Leong Tokio Marine Takaful Berhad	Malaysia	**65.00**	45.12	Takaful business
(iv) HLAH Assets Sdn Bhd	Malaysia	**100.00**	-	Investment holding
(b) Hong Leong Equities Sdn Bhd	Malaysia	**100.00**	100.00	Investment in stocks, shares and other securities
(c) HLFG Assets Sdn Bhd	Malaysia	**100.00**	100.00	Investment holding
(i) Natcap Portfolio Sdn Bhd	Malaysia	**-**	100.00	Dissolved
(ii) AutoWeb Sdn Bhd	Malaysia	**-**	100.00	Dissolved
(d) Wing Trade Investments Limited	British Virgin Islands	**100.00**	100.00	Investment holding
(e) Unincorporated trust for ESOS[Ω]*	Malaysia	**-**	-	Special purpose vehicle for ESOS
(f) HLG Capital Berhad and its subsidiary companies:	Malaysia	**81.85**	75.00	Investment holding
(i) HLG Asset Management Sdn Bhd	Malaysia	**81.85**	75.00	Dormant
(ii) HLG Securities Sdn Bhd	Malaysia	**81.85**	75.00	Investment holding
(iii) HLG Capital Markets Sdn Bhd and its subsidiary company:	Malaysia	**81.85**	75.00	Investment holding
- HLG Principal Investments (L) Limited	Malaysia	**81.85**	75.00	Holding of or dealing in offshore investment
(iv) Hong Leong Investment Bank Bhd and its subsidiary companies:	Malaysia	**81.85**	75.00	Investment banking and stockbroking
- HLG Nominee (Tempatan) Sdn Bhd	Malaysia	**81.85**	75.00	Agent and nominee for Malaysian clients
- HLG Nominee (Asing) Sdn Bhd	Malaysia	**81.85**	75.00	Agent and nominee for foreign clients
- RC Holdings Sdn Bhd	Malaysia	**81.85**	75.00	Dormant
- RC Research Sdn Bhd	Malaysia	**81.85**	75.00	Dormant
- RC Nominees (Asing) Sdn Bhd	Malaysia	**81.85**	75.00	Dormant
- RC Nominees (Tempatan) Sdn Bhd	Malaysia	**81.85**	75.00	Dormant
(v) HLG Futures Sdn Bhd	Malaysia	**81.85**	75.00	Futures and options broking
(vi) Hong Leong Asset Management Bhd (formerly known as HLG Unit Trust Bhd)	Malaysia	**81.85**	75.00	Sales of unit trust, management of unit trust funds and fund management
(vii) Unincorporated trust for ESOS[Ω]*	Malaysia	**-**	-	Special purpose vehicle for ESOS

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

12 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Name of company	Place of incorporation	Effective percentage of ownership 2010 %	2009 %	Principal activities
(g) Hong Leong Bank Berhad and its subsidiary companies:	Malaysia	66.31	63.85	Licensed bank
(i) Hong Leong Islamic Bank Berhad	Malaysia	66.31	63.85	Islamic banking business
(ii) Hong Leong Bank Vietnam Limited+	Vietnam	66.31	-	Commercial banking business
(iii) HLF Credit (Perak) Berhad and its subsidiary companies:	Malaysia	66.31	63.85	Investment holding
- Gensource Sdn Bhd and its subsidiary company:	Malaysia	66.31	63.85	Investment holding
• Pelita Terang Sdn Bhd	Malaysia	66.31	63.85	Dormant
- WTB Corporation Sdn Bhd and its subsidiary companies:	Malaysia	66.31	63.85	Investment holding
• Wah Tat Nominees (Tempatan) Sdn Bhd	Malaysia	66.31	63.85	Agent and nominee for Malaysian clients
• Wah Tat Nominees (Asing) Sdn Bhd	Malaysia	66.31	63.85	Agent and nominee for foreign clients
- Chew Geok Lin Finance Sdn Bhd	Malaysia	66.31	63.85	Investment holding
- Hong Leong Leasing Sdn Bhd*	Malaysia	66.31	63.85	Investment holding
- HL Leasing Sdn Bhd	Malaysia	66.31	63.85	Investment holding
- HLB Realty Sdn Bhd	Malaysia	66.31	63.85	Real property investment
(iv) HLB Nominees (Tempatan) Sdn Bhd	Malaysia	66.31	63.85	Agent and nominee for Malaysian clients
(v) HL Bank Nominees (Singapore) Pte Ltd	Singapore	66.31	63.85	Agent and nominee for clients
(vi) HLB Nominees (Asing) Sdn Bhd	Malaysia	66.31	63.85	Agent and nominee for foreign clients
(vii) HLB Trade Services (Hong Kong) Limited+	Hong Kong	66.31	63.85	Dormant
(viii) HLB Principal Investments (L) Limited	Malaysia	66.31	63.85	Holding of/or dealings in offshore securities
(ix) Unincorporated trust for ESOSΩ*	Malaysia	-	-	Special purpose vehicle for ESOS
(x) Famehub Quest Sdn BhdΩ*	Malaysia	-	-	Special purpose vehicle
(xi) Famehub Capital Sdn BhdΩ*	Malaysia	-	-	Special purpose vehicle
(xii) Allegra Capital Investments LtdΩ@+	British Virgin Islands	-	-	Special purpose vehicle
(xiii) GoldPearl International LtdΩ@+	British Virgin Islands	-	-	Special purpose vehicle

* Not audited by PricewaterhouseCoopers

\+ Audited by member firms of PricewaterhouseCoopers International which is a separate and independent legal entity from PricewaterhouseCoopers Malaysia.

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 2010
(continued)

13 INVESTMENT IN ASSOCIATED COMPANY

	The Group	
	2010 RM'000	2009 RM'000
Unquoted shares outside Malaysia, at cost	946,505	946,505
Cumulative share of results, net of dividend received	226,355	99,462
Revaluation reserve - available-for-sale securities	(685)	(682)
	1,172,175	1,045,285

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

	The Group	
	2010 RM'000	2009 RM'000
Revenue	399,916	343,285
Profit after taxation	143,575	99,462

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

	The Group	
	2010 RM'000	2009 RM'000
Total assets	10,172,426	8,071,351
Total liabilities	9,394,984	7,342,850
Commitments and contingencies	636,369	686,759

Details of the associated company held by the Group are as follows:

		Percentage (%) of equity held	
Name	Principal activities	2010 RM'000 %	2009 RM'000 %
Bank of Chengdu Co., Ltd	Commercial banking	20	20

14 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	The Group	
	2010 RM'000	2009 RM'000
Unquoted shares outside Malaysia, at cost	76,711	-
Share of results	(688)	-
	76,023	-

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

14 INVESTMENT IN JOINTLY CONTROLLED ENTITY (continued)

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

	The Group	
	2010 RM'000	2009 RM'000
Revenue	184	-
Loss after taxation	(1,404)	-

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

	The Group	
	2010 RM'000	2009 RM'000
Total assets	74,206	-
Total liabilities	40	-

Details of the jointly controlled entity held by the Group are as follows:

		Percentage (%) of equity held	
Name	Principal activities	2010 RM'000 %	2009 RM'000 %
Sichuan Jincheng Consumer Finance Limited Company	Consumer finance	49	-

15 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	
	Note	2010 RM'000	2009 RM'000
Deferred tax assets	(a)	193,443	217,276
Deferred tax liabilities	(b)	(17,305)	(2,097)
		176,138	215,179

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

15 DEFERRED TAXATION (continued)

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

(a) Deferred tax assets

	General allowance	Excess of capital allowance over depreciation	Available-for-sale securities	Unabsorbed tax losses	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2009	136,414	(8,221)	10,749	57,231	21,103	217,276
Credited/(charged) to income statement	8,493	(7,179)	(2,145)	(5,761)	(2,572)	(9,164)
Transferred to equity	-	-	(14,669)	-	-	(14,669)
At 30 June 2010	144,907	(15,400)	(6,065)	51,470	18,531	193,443
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

(b) Deferred tax liabilities

	Excess of depreciation over capital allowance	Other temporary differences	Available-for-sale securities	Total
	RM'000	RM'000	RM'000	RM'000
At 1 July 2009				
As previously stated	(3,822)	1,725	-	(2,097)
Changes in accounting policies (Note 55(b))	55	(3,778)	-	(3,723)
As restated	(3,767)	(2,053)	-	(5,820)
Charged to income statement	3,318	(633)	3,599	6,284
Transferred from life fund	-	(2,565)	-	(2,565)
Transfer from equity	-	-	(15,204)	(15,204)
At 30 June 2010	(449)	(5,251)	(11,605)	(17,305)
At 1 July 2008	(3,744)	1,725	-	(2,019)
Charged to income statement	(21)	-	-	(21)
Transferred from life fund	(57)	-	-	(57)
At 30 June 2009	(3,822)	1,725	-	(2,097)

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

16 PREPAID LEASE PAYMENTS

The Group	Leasehold land less than 50 years	Leasehold land 50 years or more	Total
	RM'000	RM'000	RM'000
Cost			
At 1 July 2009	8,593	5,009	13,602
Reclassification from property and equipment (Note 17)	-	9,794	9,794
Disposals	-	(1,335)	(1,335)
Transfer to assets in disposal groups held for sale	(894)	-	(894)
As at 30 June 2010	7,699	13,468	21,167
Amortisation			
At 1 July 2009	2,729	750	3,479
Amortisation during the financial year	87	516	603
Reclassification from/(to) property and equipment (Note 17)	(60)	77	17
Disposals	-	(55)	(55)
Transfer to assets in disposal groups held for sale	(137)	-	(137)
At 30 June 2010	2,619	1,288	3,907
Net book value as at 30 June 2010	5,080	12,180	17,260
Cost			
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
Amortisation			
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

Future amortisation of prepaid lease payments are as follows:

The Group	2010		2009	
	Less than 50 years RM'000	50 years or more RM'000	Less than 50 years RM'000	50 years or more RM'000
- Not later than 1 year	105	79	105	79
- Later than 1 year and not later than 5 years	422	992	422	315
- Later than 5 years	4,553	11,109	5,337	3,865
	5,080	12,180	5,864	4,259

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

17 PROPERTY AND EQUIPMENT

The Group	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
Net book value at 1 July 2009	357,296	84,402	40,055	7,359	113,250	602,362
Exchange differences	(1,492)	(249)	(27)	(23)	-	(1,791)
Additions	49,738	53,439	39,902	2,490	1,123	146,692
Disposals/write off	(17,158)	(218)	(1,883)	(836)	-	(20,095)
Reclassification	76,554	-	-	-	(76,554)	-
Reclassification to intangible assets (Note 20)	-	-	-	-	(857)	(857)
Reclassification from/(to) prepaid lease payments (Note 16)	17	-	-	-	(9,794)	(9,777)
Depreciation charge during the financial year	(6,425)	(38,576)	(14,389)	(2,766)	-	(62,156)
Transfer to assets in disposal groups held for sale (Note 10)	(5,751)	(1,968)	(4,794)	(206)	-	(12,719)
Net book value at 30 June 2010	452,779	96,830	58,864	6,018	27,168	641,659
At 30 June 2010						
Cost	490,782	447,089	207,433	14,145	27,168	1,186,617
Accumulated depreciation	(38,003)	(350,259)	(148,569)	(8,127)	-	(544,958)
Net book value	452,779	96,830	58,864	6,018	27,168	641,659

* Land and building consists of the following:

The Group	Freehold land	Freehold building	Long term leasehold building	Short term leasehold building	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Net book value at 1 July 2009	104,184	136,728	114,421	1,963	357,296
Exchange differences	-	-	(1,492)	-	(1,492)
Additions	-	-	49,738	-	49,738
Disposals	(47)	(1,384)	(15,727)	-	(17,158)
Reclassification	-	-	76,554	-	76,554
Reclassification from/(to) prepaid lease payments (Note 16)	(384)	1,082	(662)	(19)	17
Depreciation charge during the financial year	-	(2,985)	(3,404)	(36)	(6,425)
Transfer to assets in disposal groups held for sale	(2,533)	(778)	(2,440)	-	(5,751)
Net book value at 30 June 2010	101,220	132,663	216,988	1,908	452,779
At 30 June 2010					
Cost	101,220	161,534	225,345	2,683	490,782
Accumulated depreciation	-	(28,871)	(8,357)	(775)	(38,003)
Net book value	101,220	132,663	216,988	1,908	452,779

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

17 PROPERTY AND EQUIPMENT (continued)

The Group	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
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
At 30 June 2009						
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

* Land and building consists of the following:

The Group	Freehold land	Freehold building	Long term leasehold building	Short term leasehold building	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
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
At 30 June 2009					
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

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

17 PROPERTY AND EQUIPMENT (continued)

The Company	Office and computer equipment	Furniture, fittings and renovation	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000
Net book value at 1 July 2009	109	957	1,822	2,888
Additions	46	2	-	48
Disposals	-	(2)	(224)	(226)
Depreciation charge during the financial year	(74)	(117)	(565)	(756)
Net book value at 30 June 2010	81	840	1,033	1,954
At 30 June 2010				
Cost	567	1,421	2,715	4,703
Accumulated depreciation	(486)	(581)	(1,682)	(2,749)
Net book value	81	840	1,033	1,954
Net book value at 1 July 2008	173	1,169	2,183	3,525
Additions	21	33	291	345
Disposals	-	(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
At 30 June 2009				
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

18 INVESTMENT PROPERTIES

	The Group	
	2010 RM'000	2009 RM'000
Fair value		
At 1 July	1,600	1,600
Fair value gain	80	-
At 30 June	1,680	1,600
The analysis of investment properties is as follows:		
Leasehold land and building	1,680	1,600

The fair value of the properties was estimated at RM1,680,000 (2009: RM1,600,000) based on open market valuation by an independent professional valuer, Messrs Rahim & Co International Property Consultants.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

19 GOODWILL ARISING ON CONSOLIDATION

	The Group	
	2010 RM'000	2009 RM'000
At 1 July	572,265	536,135
Rateable goodwill attributable to share buy back of a subsidiary company	2,148	5
Goodwill arising from acquisition of additional interest in subsidiary	-	7,965
Goodwill arising from acquisition of SIBB and SBBS	-	85,396
Impairment made during the financial year	-	(57,236)
Liquidation of subsidiary	(240)	-
Goodwill arising during the financial year	235	-
At 30 June	574,408	572,265

Allocation of goodwill to cash-generating units

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

	The Group	
	2010 RM'000	2009 RM'000
CGU		
Commercial banking	397,541	395,393
Investment banking and asset management	99,803	99,808
Insurance	77,064	77,064
	574,408	572,265

Impairment test for goodwill

The recoverable amount of the CGUs as at 30 June 2010 are determined based on either the fair value less cost to sell or value-in-use.

(i) Fair value less costs to sell

Commercial banking CGU

The recoverable amount of the Banking CGU have been determined using the quoted market prices as at 30 June 2010 by Bursa Malaysia Securities Berhad.

Insurance CGU

The recoverable amount of the Insurance CGU is based on the conditional sale and purchase agreement entered into between HLAH and MSIJ to dispose HLAH's 60 million ordinary shares in HLA (representing 30% equity interest) to MSIJ for a consideration of RM940 million.

(ii) Value-in-use

Investment banking and asset management CGU

The recoverable amount 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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

19 GOODWILL ARISING ON CONSOLIDATION (continued)

(ii) Value-in-use (continued)

Investment banking and asset management CGU (continued)

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.

Management believes that no reasonable possible change to the assumptions applied would cause the carrying value of the CGU to exceed its recoverable amount.

Impairment charge

An impairment charge of RM57,236,000 was required for goodwill in the prior financial year, arising from investment banking and asset management segment.

20 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cost				
At 1 July	**202,990**	192,354	**510**	503
Additions	**36,649**	10,679	**17**	4
Amount arising from acquisition of subsidiaries	**-**	43	**-**	-
Disposals/write-off	**(320)**	(86)	**-**	-
Reclassifications from property and equipment (Note 17)	**857**	-	**-**	3
Transfer to assets in disposal groups held for sale	**(32,455)**	-	**-**	-
At 30 June	**207,721**	202,990	**527**	510
Accumulated amortisation				
At 1 July	**162,530**	139,929	**280**	151
Disposals/write-off	**(297)**	(56)	**-**	-
Amortisation during the financial year	**21,968**	22,657	**123**	126
Reclassifications	**-**	-	**-**	3
Transfer to assets in disposal groups held for sale	**(30,895)**	-	**-**	-
At 30 June	**153,306**	162,530	**403**	280
Net book value	**54,415**	40,460	**124**	230

The remaining amortisation period for computer software is between 1- 5 years.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

21 DEPOSITS FROM CUSTOMERS

	The Group	
	2010 RM'000	2009 RM'000
Fixed deposits	38,528,523	36,852,359
Negotiable instruments of deposit	2,580,634	3,526,455
	41,109,157	40,378,814
Demand deposits	7,964,808	6,761,540
Savings deposits	8,392,327	7,841,769
Short term corporate placements	11,759,585	11,638,034
Others	255,019	641,929
	69,480,896	67,262,086

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

	The Group	
	2010 RM'000	2009 RM'000
Due within:		
- Six months	32,120,903	31,125,967
- Six months to one year	7,891,046	8,557,265
- One year to three years	1,097,208	695,582
	41,109,157	40,378,814

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

	The Group	
	2010 RM'000	2009 RM'000
Government and statutory bodies	856,715	714,312
Business enterprises	34,229,890	32,943,191
Individuals	33,353,132	32,608,117
Others	1,041,159	996,466
	69,480,896	67,262,086

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

22 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2010 RM'000	2009 RM'000
Licensed banks	3,644,826	2,172,604
Licensed investment banks	-	29,700
Other financial institutions	832,567	211,675
	4,477,393	2,413,979

23 DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Derivatives at fair value through profit or loss				
- interest rate swaps	368,975	402,501	3,454	6,367
- cross currency swaps	391,448	175,031	669	-
- foreign currency forwards	264,014	159,712	-	-
- foreign currency options	16,276	1,455	-	-
- futures	96	3,090	-	-
- equity options	204	75	-	-
Derivatives designated as fair value hedge				
- interest rate swaps	-	34,480	-	-
Total derivative financial instruments assets	1,041,013	776,344	4,123	6,367
Derivatives at fair value through profit or loss				
- interest rate swaps	(393,110)	(431,320)	-	-
- cross currency swaps	(333,731)	(69,484)	-	-
- foreign currency forwards	(290,731)	(84,196)	-	-
- foreign currency options	(16,372)	(842)	-	-
- equity options	(204)	(75)	-	-
- futures	(11,855)	(11,989)	-	-
Derivatives designated as fair value hedge				
- interest rate swaps	(12,948)	(39,567)	-	-
- futures	-	(12,694)	-	-
Total derivative financial instruments liabilities	(1,058,951)	(650,167)	-	-

24 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM178,185,463 (2009: RM179,167,000).

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

25 PAYABLES AND OTHER LIABILITIES

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade payables	521,257	460,349	-	-
Amount due to other related companies	3,940	4,451	-	-
Other payables and accrued liabilities	1,166,860	829,542	4,645	4,394
Treasury clearing	554,455	30,671	-	-
Interest payable	378,423	263,239	570	1,821
Post employment benefits obligation - defined contribution plan	5,419	5,982	15	76
Zakat	498	55	-	-
Profit equalisation reserve	5,255	4,691	-	-
General and family takaful funds (Note (a))	265,037	217,337	-	-
Loan advance payment	982,043	802,123	-	-
Derivative financial instruments (Note 23)	1,058,951	650,167	-	-
	4,942,138	3,268,607	5,230	6,291

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

(a) General and family takaful funds

	The Group		
	2010		
	General Takaful Fund RM'000	Family Takaful Fund RM'000	Total RM'000
Payables	7,112	948	8,060
Outstanding claims	2,064	439	2,503
Investment-linked business liabilities	-	4,699	4,699
	9,176	6,086	15,262
General takaful and family takaful participants' funds	2,140	247,635	249,775
	11,316	253,721	265,037

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

25 PAYABLES AND OTHER LIABILITIES (continued)

(a) General and family takaful funds (continued)

	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

26 BORROWINGS

		The Group		The Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revolving credit	(a)	53,000	177,900	31,000	31,000
Commercial papers	(b)	219,507	379,228	219,507	379,228
Medium term notes	(b)	-	40,000	-	40,000
Term loans	(c)	469,751	-	469,751	-
		742,258	597,128	720,258	450,228
Repayment of revolving credit					
- less than one year		53,000	177,900	31,000	31,000
Repayment of commercial papers					
- less than one year		219,507	379,228	219,507	379,228
Repayment of medium term notes					
- less than one year		-	40,000	-	40,000
Repayment of term loans					
- less than one year		350,000	-	350,000	-
- one to three years		119,751	-	119,751	-
		742,258	597,128	720,258	450,228

(a) The revolving credit facilities carry interest rates ranging from 2.90% to 3.86% (2009: 2.90% to 4.70%) per annum.

The bank loans are unsecured and repayable within 12 months.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

26 BORROWINGS (continued)

(b) 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 2.25% to 2.77% (2009: 2.30% to 3.30%).

The Company's 7 years RM300 million CP and MTN Programme has expired on 9 July 2009. The Company has fully repaid the outstanding principal and accrued interest.

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

(c) During the financial year, the Company has obtained the following term loans:

(i) an unsecured 3 years term loan of USD 37,000,000 maturing on 12 April 2013 with a cross currency swap. The term loan with three months interest period bears LIBOR interest rate of 1.3% per annum.

(ii) an unsecured 1 year term loan of RM200 million with Tranche 1 of RM150 million maturing on 25 May 2011 and Tranche 2 of RM50 million maturing on 10 June 2011. The term loan with one month interest period bears interest rate of 3.22% per annum.

(iii) an unsecured short term loan facility of RM1.2 billion. An amount of RM150 million had been drawn down on 29 June 2010. The outstanding term loan with one month interest period bears interest rate of 3.32% per annum.

27 SUBORDINATED OBLIGATIONS

	The Group	
	2010 RM'000	2009 RM'000
Subordinated obligations, at par	749,250	749,250
Foreign exchange translations	(101,734)	(45,218)
	647,516	704,032
Add: Unamortised fair value charges arising from terminated fair value hedge	2,954	25,766
Less: Unaccreted discounts	(16)	(232)
	650,454	729,566

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). HLB had on 3 August 2010 fully redeemed the Bonds.

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%.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

28 INSURANCE FUNDS

	The Group	
	2010 RM'000	2009 RM'000
Unearned premium reserves	99,539	96,333
Life policyholders' fund	4,481,819	4,145,801
- AFS reserve	122,826	(30,182)
Life investment-linked unitholders' fund	471,525	365,940
	5,175,709	4,577,892

(a) Based on the actuarial valuation of the fund made up to 30 June 2010, the Actuary was satisfied that the assets available in the Life fund are sufficient to meet its long term liabilities to policyholders.

(b) Results of the actuarial valuation of Life policyholders' fund as at 30 June 2010 is as follows:

	The Group	
	2010 RM'000	2009 RM'000
Actuarial liabilities		
At 1 July		
- As previously stated	3,533,292	3,193,468
- Change in accounting policies	(183,866)	-
As restated	3,349,426	3,193,468
Add:		
Increase in policy reserves	224,184	180,111
Bonus allocated to participating policyholders (including interim bonus)		
- from normal surplus	169,602	159,713
At 30 June	3,743,212	3,533,292

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

28 INSURANCE FUNDS (continued)

(b) Results of the actuarial valuation of Life policyholders' fund as at 30 June 2010 is as follows: (continued)

	The Group	
	2010 RM'000	2009 RM'000
Unallocated surplus		
At 1 July		
- As previously stated	582,327	538,121
- Change in accounting policies	226,034	-
As restated	808,361	538,121
Add:		
Surplus arising during the financial year	244,666	226,108
Bonus allocated to policyholders (including interim bonus)		
- from normal surplus	(169,602)	(159,713)
Transfer to income statement	(175,000)	(57,000)
Movement in AFS reserve	153,008	34,811
At 30 June	861,433	582,327
Life policyholders' fund at 30 June		
Actuarial liabilities	3,743,212	3,533,292
Unallocated surplus	861,433	582,327
Life policyholders' fund	4,604,645	4,115,619

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

	The Group	
	2010 RM'000	2009 RM'000
Net premium income	1,016,057	862,335
Benefit and claims incurred	(414,464)	(390,832)
Commissions and agency expenses	(185,228)	(151,777)
Management expenses	(71,602)	(68,765)
Investment income	253,448	224,747
Surplus from operations before taxation	598,211	475,708
Taxation	(27,056)	(14,606)
Surplus after taxation	571,155	461,102
Increase in investment-linked fund	(105,585)	(51,599)
Others	3,280	(3,284)
	468,850	406,219
Life policyholders' fund at 1 July	4,157,787	3,731,589
Transfer to income statement	(175,000)	(57,000)
Movement in AFS reserve	153,008	34,811
Life policyholders' fund at 30 June	4,604,645	4,115,619

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

28 INSURANCE FUNDS (continued)

	The Group	
	2010 RM'000	2009 RM'000
The Life policyholders' fund is arrived at after charging:		
HLA's auditors remuneration	305	102
Depreciation of property and equipment	6,853	5,900
Amortisation of intangible assets	3,910	4,541
Impairment loss on quoted investments	-	4,394
Directors' fees	263	182
Rental expense	2,812	19
Provision for staff retirement benefits	54	80
And crediting:		
Gross dividends from		
- shares quoted in Malaysia	26,002	28,295
- share quoted outside Malaysia	133	75
Interest income from:		
- Malaysian Government securities	20,697	17,180
- fixed and call deposits	28,294	39,418
- Islamic debt securities	24,476	27,192
- policy and premium loans	33,281	38,108
- unquoted bonds and debentures	86,668	78,036
Gain on sale of property and equipment	104	-
Gain on sale of investments	47,968	9,415
Rental income	15,891	16,093
Accretion of discount, net of amortisation of premium	18,513	15,080
Others (ICULS)	5	13,902

29 SHARE CAPITAL

	The Group and Company	
	2010 RM'000	2009 RM'000
Authorised		
Ordinary shares of RM1.00 each	2,000,000	2,000,000
Issued and fully paid capital		
Ordinary shares of RM1.00 each		
At 1 July/30 June	1,052,768	1,052,768

There were no new shares issued by the Company during the financial year ended 30 June 2010.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

30 RESERVES

		The Group		The Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Retained profits	(a)	**2,703,870**	2,106,634	**513,767**	558,693
Share premium	(b)	**117,229**	117,229	**117,229**	117,229
Statutory reserve	(c)	**1,190,262**	1,141,486	**-**	-
Fair value reserve	(d)	**17,854**	(19,429)	**-**	-
Other capital reserve	(e)	**133,258**	133,258	**254,991**	18,484
Share options reserve	(f)	**26,655**	23,229	**10,827**	10,208
Exchange fluctuation reserve	(g)	**(3,174)**	20,413	**-**	-
		4,185,954	3,522,820	**896,814**	704,614

(a) Under the single-tier tax system which came into effect on 1 January 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 single-tier dividends and 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 transitional provisions of the Finance Act 2007 and pay single-tier dividends. As at 30 June 2010, 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 RM51,438,000 (2009: RM185,667,000). In addition, the Company has tax exempt income of approximately RM1,831,000 (2009: RM64,997,000) 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.

(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	
	2010 RM'000	2009 RM'000
As at beginning of the financial year	**(19,429)**	(11,256)
Net gain from change in fair value	**77,229**	20,237
Net gain transferred to net profit on disposal and impairment	**(10,070)**	(33,886)
Deferred taxation	**(29,873)**	6,158
Share of fair value reserve of associated company	**(3)**	(682)
Net change in fair value reserve	**37,283**	(8,173)
As at end of the financial year	**17,854**	(19,429)

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

30 RESERVES (continued)

(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 gain on disposal of a subsidiary company during the financial year not recognised in the income statement due to a common control transaction, 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 50 to the financial statements.

(g) Exchange differences arising on translation of foreign subsidiary and associated companies are taken to exchange fluctuation reserve.

31 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 2010, the number of shares held by the appointed trustee was 14,461,408 shares (2009: 14,461,408) at an average price of RM4.45 per share (2009: RM4.45). The total consideration paid, including transaction costs was RM65,750,000 (2009: RM65,750,000).

Pursuant to the insurance subsidiary company's ESOS scheme, the insurance subsidiary company also held 2,768,992 (2009: 2,768,992) units of the Company's shares at an average price of RM4.49 (2009: RM4.49) per share with total consideration paid, including transaction costs of RM12,421,000 (2009: RM12,421,000), 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 50 to the financial statements.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

32 INTEREST INCOME

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	1,536,778	1,704,732	-	-
- Recoveries from non-performing loans, advances and financing	111,695	111,659	-	-
Money at call and deposit placements with financial institution	361,026	676,498	179	233
Securities purchased under resale agreements	166	1,088	-	-
Securities held at fair value through profit or loss	61,242	22,078	-	-
Available-for-sale securities	146,978	103,132	-	-
Held-to-maturity securities	223,945	145,010	-	-
Others	8,237	2,845	1,096	1,536
	2,450,067	2,767,042	1,275	1,769
Accretion of discount less amortisation of premium	153,614	203,473	-	-
Net interest suspended	(16,664)	(14,903)	-	-
	136,950	188,570	-	-
	2,587,017	2,955,612	1,275	1,769

33 INTEREST EXPENSE

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposits and placements of banks and other financial institutions	34,296	71,274	-	-
Deposits from other customers	1,103,901	1,460,029	-	-
Subordinated obligations	35,089	36,631	-	-
Borrowings	17,855	21,212	14,564	17,010
Others	1,832	1,896	3	6
	1,192,973	1,591,042	14,567	17,016

34 INCOME FROM ISLAMIC BANKING BUSINESS

	The Group	
	2010 RM'000	2009 RM'000
Income derived from investment of depositors' funds and others	309,105	322,131
Income derived from investment of shareholders' funds	36,464	41,410
Profit equalisation reserve	(544)	(407)
Total distributable income	345,025	363,134
Income attributable to depositors	(160,188)	(186,793)
Total net income	184,837	176,341

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

35 NON-INTEREST INCOME

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Insurance income	261,014	147,325	-	-
Brokerage income	51,431	34,692	-	-
Fee income				
Commissions	70,364	55,566	-	-
Service charges and fees	17,119	20,448	-	-
Guarantee fees	6,171	5,217	-	-
Credit card related fees	116,769	125,995	-	-
Corporate advisory fees	1,466	3,926	-	-
Commitment fees	12,862	12,819	-	-
Unit trust fee income	19,478	19,501	-	-
Other fee income	60,865	40,816	7,036	6,703
	305,094	284,288	7,036	6,703
Net income from securities				
Net realised gain/(loss) from sale/redemption of securities portfolio:				
- securities held at fair value through profit or loss	29,850	2,961	(1,841)	(9,411)
- available-for-sale securities	13,242	28,505	-	-
- held-to-maturity securities	1,318	316	-	-
Dividend income from:				
- securities held at fair value through profit or loss	596	2,663	419	686
- available-for-sale securities	17,730	5,738	-	-
- held-to-maturity securities	7,113	3,593	-	-
- subsidiary companies	-	-	228,378	278,822
Net unrealised (loss)/gain on revaluation of securities held at fair value through profit or loss and derivatives	(10,130)	15,210	(2,230)	6,317
Net realised gain/(loss) on fair value changes arising from fair value hedges and amortisation of fair value changes arising from terminated fair value hedges	513	(14,851)	-	-
Net unrealised gain on fair value changes arising from fair value hedges	3,472	15,858	-	-
	63,704	59,993	224,726	276,414
Other income				
Foreign exchange gain/(loss)	105,465	171,181	(1,720)	-
Rental income	1,149	456	-	-
Gain on sale of property and equipment	36,005	1,428	212	51
Other non-operating income	27,715	29,669	(663)	2,036
	170,334	202,734	(2,171)	2,087
	851,577	729,032	229,591	285,204

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

36 OVERHEAD EXPENSES

		The Group		The Company	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Personnel costs	(a)	548,704	514,240	10,464	12,875
Establishment costs	(b)	235,182	219,289	1,778	2,095
Marketing expenses	(c)	126,131	129,461	-	-
Administration and general expenses	(d)	140,120	110,424	2,531	2,495
		1,050,137	973,414	14,773	17,465

(a) Personnel costs comprise the following:

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Salaries, bonus and allowances	502,435	462,202	9,535	7,999
Other employees benefits	46,269	52,038	929	4,876
	548,704	514,240	10,464	12,875

(b) Establishment costs comprise the following:

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Depreciation of property and equipment	55,303	51,460	756	845
Amortisation of intangible assets	18,058	18,116	123	126
Rental of premises	52,866	49,718	680	675
Information technology expenses	53,995	52,516	49	-
Others	54,960	47,479	170	449
	235,182	219,289	1,778	2,095

(c) Marketing expenses comprise the following:

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Advertisement and publicity	67,773	66,023	-	-
Handling fees	1,861	11,250	-	-
Credit card related fees	34,446	35,922	-	-
Others	22,051	16,266	-	-
	126,131	129,461	-	-

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

36 OVERHEAD EXPENSES (continued)

(d) Administration and general expenses comprise the following:

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Teletransmission expenses	10,027	10,829	34	41
Stationery and printing expenses	11,287	13,994	56	45
Professional fees	50,548	43,097	1,545	1,623
Insurance fees	16,326	7,353	-	7
Stamp, postage and courier	9,352	8,682	-	6
Others	42,580	26,469	896	773
	140,120	110,424	2,531	2,495

The above expenditure includes the following statutory disclosures:

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Directors' remuneration (Note 38)	9,076	9,613	4,460	3,951
Hire of equipment	38	101	-	-
Auditors' remuneration:				
(i) PwC Malaysian firm				
- statutory audit	1,350	1,183	61	58
- audit related fees	665	278	5	5
- other services	505	110	230	-
- tax compliance	99	125	-	-
- other tax services	303	-	183	-
(ii) PwC overseas affiliated firms				
- statutory audit	205	187	-	-
- other services	235	308	-	-
Amortisation of prepaid lease payments	603	127	-	-
Gain on sale of property and equipment	(36,005)	(1,428)	(212)	(51)
Impairment loss in investment in subsidiary	-	-	1,365	-
Intangible assets written off	23	30	-	-
Options charge arising from ESOS	5,068	14,748	619	4,446

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

37 ALLOWANCES FOR LOSSES ON LOANS, ADVANCES, FINANCING AND OTHER LOSSES

	The Group	
	2010 RM'000	2009 RM'000
Allowance for losses on loans, advances and financing		
(a) Specific allowance		
- made during the financial year	289,510	317,495
- written back	(128,463)	(73,641)
(b) General allowance		
- made during the financial year	34,135	17,892
	195,182	261,746
Allowance for losses on clients' and brokers' balances		
(a) Specific allowance		
- made during the financial year	831	-
- written back	(417)	(2,600)
(b) General allowance		
- made during the financial year	1,896	43
- written back	(41)	(118)
	2,269	(2,675)
Bad debts on loans, advances and financing		
- written off	8,799	9,015
- recovered	(98,283)	(112,836)
	(89,484)	(103,821)
	107,967	155,250

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 2010
(continued)

38 DIRECTORS' REMUNERATION

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

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Executive Directors				
- fees	448	435	-	-
- salary and bonus	3,506	3,086	3,506	3,086
- estimated money value for benefits-in-kind	33	33	33	33
- defined contribution retirement plan	421	370	421	370
Non-Executive Directors				
- fees	1,021	979	472	437
- other remuneration	3,647	4,710	28	25
	9,076	9,613	4,460	3,951

The remuneration including benefits-in-kind attributable to the President & Chief Executive Officer of the Company during the financial year amounted to RM3,613,752 (2009: RM3,192,245) and RM3,321,120 (2009: RM2,934,320) 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.

39 TAXATION AND ZAKAT

	The Group		The Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Malaysian income tax	274,611	276,069	52,394	53,631
Over accrual in prior years	(40,610)	(51,839)	(1,990)	(817)
Transfer to deferred taxation (Note 15)				
- current year	2,880	(68,423)	-	-
- under/(over) accrual in prior years	-	32,016	-	-
	2,880	(36,407)	-	-
Taxation	236,881	187,823	50,404	52,814
Zakat	498	54	-	-
	237,379	187,877	50,404	52,814

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

39 TAXATION AND ZAKAT (continued)

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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit before taxation and zakat	1,422,688	1,150,204	200,161	252,492
Tax calculated at a rate of 25% (2009: 25%)	355,672	287,551	50,040	63,123
Tax effects of:				
- Differences in tax rate of foreign inward and offshore insurance	(4,817)	(803)	-	-
- Income not subject to tax	(50,708)	(41,113)	(275)	(11,013)
- Share of net income of foreign associate and joint venture company	(35,722)	-	-	-
- Expenses not deductible for tax purposes	14,274	21,544	2,629	1,521
- Previously unrecognised tax losses/capital allowances	-	(57,231)	-	-
- Tax savings from utilisation of brought forward tax losses	-	(2,302)	-	-
- Tax savings from Islamic tax incentive	(143)	-	-	-
- Other temporarily differences not recognised previously	(1,065)	-	-	-
- Over accrual (net of deferred tax effects)	(40,610)	(19,823)	(1,990)	(817)
Taxation	236,881	187,823	50,404	52,814

	The Group	
	2010 RM'000	2009 RM'000
Tax losses		
Tax losses for which the related tax credit has not been recognised in the financial statements	53,989	59,488
Capital allowance		
Deductible temporary differences and unutilised capital allowances for which the related tax credit has not been recognised in the financial statements	2,065	2,049

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

Notes to the Financial Statements

for the financial year ended 30 June 2010
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40 EARNINGS PER SHARE

(a) 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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Net profit attributable to equity holders of the Company	**846,848**	632,020	**149,757**	199,678
Weighted average number of ordinary shares ('000)	**1,035,538**	1,035,538	**1,038,307**	1,038,307
Basic earnings per share (sen)	**81.8**	61.0	**14.4**	19.2

(b) 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.

41 DIVIDENDS

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

	The Group and Company	
	2010 RM'000	2009 RM'000
First interim dividend of 9 sen per share less income tax at 25% (2009: 9 sen per share less income tax at 25%)	**70,086**	70,086
Second interim dividend of 8 sen per share less income tax at 25% and 6 sen tax exempt (2009: 14 sen per share less income tax at 25%)	**124,597**	109,022
	194,683	179,108

42 COMMITMENTS AND CONTINGENCIES

(a) Group related commitments and contingencies

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

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

42 COMMITMENTS AND CONTINGENCIES (continued)

(a) Group related commitments and contingencies (continued)

The commitments and contingencies constitute as follows:

	The Group					
	2010			2009		
	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	175,141	175,141	164,268	217,061	217,061	200,263
Certain transaction related contingent items	257,429	128,715	117,040	247,102	123,551	110,598
Short-term self-liquidating trade-related contingencies	533,384	106,677	104,316	578,754	115,750	113,434
Commitments that are unconditionally cancellable at any time without prior notice#	21,415,746	-	-	19,134,149	-	-
Foreign exchange related contracts:						
- less than one year	32,354,865	679,235	304,629	16,955,284	349,792	191,764
- one year to less than five years	6,231,476	768,814	620,242	3,421,043	485,318	274,098
- five years and above	268,230	60,762	30,381	298,668	62,884	31,442
Interest rate related contracts:						
- less than one year	10,621,714	48,784	24,393	9,848,229	46,175	23,223
- one year to less than five years	24,661,133	689,934	349,214	26,247,637	996,737	504,359
- five years and above	6,183,750	666,243	333,122	1,401,880	180,913	90,457
Equity related contracts:						
- less than one year	155,350	9,527	2,861	96,900	5,814	2,462
- one year to less than five years	32,900	2,632	527	150,203	12,016	4,264
	102,891,118	3,336,464	2,050,993	78,596,910	2,596,011	1,546,364

Pursuant to BNM's letter dated 18 March 2010 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.

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for the financial year ended 30 June 2010
(continued)

42 COMMITMENTS AND CONTINGENCIES (continued)

(a) Group related commitments and contingencies (continued)

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

	The Group	
	2010 RM'000	2009 RM'000
Foreign exchange related contracts		
- swaps and forward contracts	**27,995,113**	15,110,163
- options	**3,981,630**	1,564,171
- cross currency swap	**6,877,828**	4,000,661
Interest rate related contracts		
- futures contracts	**7,701,038**	5,841,386
- interest rate swaps	**33,763,359**	31,604,160
- cap/floors	**-**	50,000
- swaptions	**2,200**	2,200
Equity related contracts		
- options	**188,250**	247,103

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

The Company's commitments and contingencies

	The Company	
	2010 RM'000	2009 RM'000
Interest rate swaps	**250,000**	250,000
Cross currency swaps	**118,030**	-
	368,030	250,000

(b) Other commitments and contingencies - unsecured

Hong Leong Asset Management Berhad (formerly known as 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 2010.

Notes to the Financial Statements

for the financial year ended 30 June 2010
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43 CAPITAL COMMITMENTS

	The Group	
	2010 RM'000	2009 RM'000
Approved and contracted for	74,074	73,629
Approved but not contracted for	13,538	85,664
	87,612	159,293

The capital commitments are in respect of property and equipment.

44 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	
	2010 RM'000	2009 RM'000
Less than one year	3,968	5,397
More than one year but less than five years	4,755	7,675
More than 5 years	-	394

45 HOLDING COMPANY

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

46 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 2010 met the minimum requirement.

The banking subsidiaries 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.

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for the financial year ended 30 June 2010
(continued)

46 CAPITAL ADEQUACY (continued)

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

	Hong Leong Bank Group		Hong Leong Investment Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Tier-1 capital				
Paid-up share capital	1,580,107	1,580,107	265,535	123,500
Share premium	539,664	539,664	-	-
Other reserves*	4,975,100	4,267,219	21,688	8,325
Minority interest	-	42,988	-	-
Treasury shares	(687,908)	(699,052)	-	-
Less: Deferred tax assets	(140,137)	(153,613)	(52,597)	(58,192)
Less: Goodwill	-	-	(30,236)	(30,000)
Total Tier-1 capital	6,266,826	5,577,313	204,390	43,633
Tier-2 capital				
Subordinated obligations	647,500	703,800	-	-
Redeemable preference shares	-	-	1,631	1,631
Share premium on redeemable preference shares	-	-	-	142,035
General allowance for bad and doubtful debts	577,822	544,823	1,805	1,304
Total Tier-2 capital	1,225,322	1,248,623	3,436	144,970
Total eligible Tier-2 capital	1,225,322	1,248,623	3,436	43,633
Total capital	7,492,148	6,825,936	207,826	87,266
Less: Investment in associated company	(1,172,175)	(1,045,285)	-	-
Less: Investment in subsidiaries	-	-	(588)	(588)
Less: Investment in jointly controlled entity	(76,023)	-	-	-
Total capital base	6,243,950	5,780,651	207,238	86,678
Capital ratios				
Core capital ratio	15.50%	15.72%	33.06%	17.59%
Risk-weighted capital ratio	15.50%	16.30%	33.52%	34.94%
Core capital ratio (net of proposed dividends)	15.08%	15.25%	33.06%	17.59%
Risk-weighted capital ratio (net of proposed dividends)	15.08%	15.82%	33.52%	34.94%

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

Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

47 SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

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 2010
(continued)

47 SEGMENTAL INFORMATION (continued)

(a) Business segment reporting

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

The Group 2010	Commercial banking RM'000	Investment Banking RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ Consolidation adjustment RM'000	Consolidated RM'000
Revenue						
External sales	2,038,651	82,456	334,685	(25,334)	-	2,430,458
Inter-segment sales	18,278	2,651	3,328	8,132	(32,389)	-
	2,056,929	85,107	338,013	(17,202)	(32,389)	2,430,458
Overhead expenses	(916,467)	(63,620)	(87,518)	(14,921)	32,389	(1,050,137)
Allowances for losses on loans, advances and financing and other losses	(105,030)	(1,041)	(1,896)	-	-	(107,967)
Writeback of impairment losses	6,939	-	508	-	-	7,447
Result						
Segment results	1,042,371	20,446	249,107	(32,123)	-	1,279,801
Share of results of associated company						143,575
Share of results of jointly controlled entity						(688)
Profit before taxation and zakat						1,422,688
Taxation and zakat						(237,379)
Net profit for the financial year						1,185,309
Minority interest						(338,461)
Profit attributable to equity holders of the Company						846,848
Other information						
Segment assets	84,565,436	1,448,185	7,292,948	326,067	(252,960)	93,379,676
Non-current assets held for sale	-	-	346,939	-	-	346,939
Other corporate assets						215,753
Total consolidated assets						93,942,368
Segment liabilities	78,281,550	1,230,616	6,529,992	49,749	(618,728)	85,473,179
Liabilities directly associated with non-current assets held for sale	-	-	320,102	-	-	320,102
Other corporate liabilities						720,257
Total consolidated liabilities						86,513,538
Other significant segment items						
Capital expenditure	116,859	4,116	62,301	65	-	183,341
Amortisation of prepaid lease payments	560	1	42	-	-	603
Depreciation of property and equipment	48,715	1,875	3,957	756	-	55,303
Amortisation of intangible assets	14,068	678	3,189	123	-	18,058

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

47 SEGMENTAL INFORMATION (continued)

(a) Business segment reporting (continued)

The Group 2009	Commercial banking RM'000	Investment Banking RM'000	Insurance RM'000	Other operations RM'000	Eliminations/ Consolidation adjustment RM'000	Consolidated RM'000
Revenue						
External sales	2,095,995	58,080	164,661	(48,793)	-	2,269,943
Inter-segment sales	2,977	1,743	2,417	9,983	(17,120)	-
	2,098,972	59,823	167,078	(38,810)	(17,120)	2,269,943
Overhead expenses	(876,555)	(47,655)	(75,148)	8,824	17,120	(973,414)
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)
Result						
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
Other information						
Segment assets	79,178,302	575,171	6,113,106	95,466	173,407	86,135,452
Other corporate assets						273,671
Total consolidated assets						86,409,123
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
Other significant segment items						
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

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

47 SEGMENTAL INFORMATION (continued)

(b) Geographical segment reporting

The Group operates in two main geographical areas:

(i) Malaysia, the home country of the Group, which includes all the areas of operations in the primary business segments

(ii) Overseas operations, which includes branch, subsidiary, associate and joint venture operations in Singapore, Hong Kong, China and Vietnam. The overseas operations are mainly in commercial banking and insurance business.

The Group	Revenue RM'000	Total assets RM'000	Non-current assets RM'000
2010			
Malaysia	**2,266,315**	**85,979,621**	**644,405**
Overseas operations	**164,143**	**7,962,747**	**1,318,807**
	2,430,458	**93,942,368**	**1,963,212**
2009			
Malaysia	2,174,889	81,126,515	630,760
Overseas operations	95,054	5,282,608	1,069,070
	2,269,943	86,409,123	1,699,830

48 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 its financial statements ("HIMB Group")	Subsidiary and associated companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiary and associated companies of ultimate holding company

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

48 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) Related parties and relationship (continued)

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

Related parties	Relationship
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 12	Subsidiary companies of the Company
Key management personnel	The key management personnel of the Group and the Company consists of: - All Directors of the Company - Key management personnel of the Company who are in charge of the HLFG Group
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

(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
2010			
Income			
Interest on deposits	-	2,273	601
Interest on loans	-	-	52
Brokerage fee received	-	377	138
Insurance premium received	-	15,514	11
Others	-	4,451	7
	-	22,615	809
Expenditure			
Rental and maintenance	-	5,855	-
Interest on deposits	-	9,547	-
Management fees	-	15,110	-
Other miscellaneous expenses	-	4,934	-
	-	35,446	-

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

48 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions (continued)

Transactions with related parties are as follows: (continued)

	The Group		
	Parent company RM'000	Other related companies RM'000	Key management personnel RM'000
2010			
Amounts due from:			
Insurance premium receivable	-	2,926	-
Credit card	-	-	136
Others	-	2,041	-
	-	4,967	136
Amounts due to:			
Current account and fixed deposits	61	231,500	110,891
Others	-	1,243	-
	61	232,743	110,891
2009			
Income			
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
Expenditure			
Rental and maintenance	-	7,919	-
Interest on deposits	-	23,371	-
Management fees	-	14,622	-
Other miscellaneous expenses	-	4,357	36
	-	50,269	36
Amounts due from:			
Insurance premium receivable	-	2,647	-
Credit card	-	-	279
Others	-	90	-
	-	2,737	279
Amounts due to:			
Current account and fixed deposits	335	695,403	92,280
Others	-	1,165	-
	335	696,568	92,280

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

48 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) **Related party transactions** (continued)

Transactions with related parties are as follows: (continued)

	The Company			
	Parent company RM'000	Subsidiary companies RM'000	Other related companies RM'000	Key management personnel RM'000
2010				
Income				
Interest on interbank placement	-	1,117	-	-
Management fee	-	7,036	-	-
Others	-	509	-	-
	-	8,662	-	-
Expenditure				
Insurance	-	30	-	-
Management fee	-	-	516	-
	-	30	516	-
Amounts due to:				
Others	-	22	-	-
Amounts due from:				
Current account	-	44	-	-
Others	-	282,038	-	-
	-	282,082	-	-
2009				
Income				
Interest on interbank placement	-	1,769	-	-
Management fee	-	6,703	-	-
Others	-	801	-	-
	-	9,273	-	-
Expenditure				
Insurance	-	32	-	-
Management fee	-	-	516	-
	-	32	516	-
Amounts due to:				
Others	-	100	-	-
Amounts due from:				
Current account	-	287	-	-
Others	-	55,259	-	-
	-	55,546	-	-

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

48 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Related party transactions (continued)

All amounts due from subsidiaries are unsecured and non interest bearing except for amounts totalling RM42.6 million (2009: RM53.8 million) which bears interest rate ranging from 2.35% to 3.14% (2009: 2.71% to 3.75%) per annum and is repayable on demand.

All amounts due to subsidiaries are unsecured, non interest bearing and expected to be repaid within 12 months.

	The Group	
	2010 RM'000	2009 RM'000
The approved limit on loans, advances and financing for key management personnel	105	-

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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Salaries and other short-term employee benefits	10,008	10,464	5,392	4,842
	Units	Units	Units	Units
Share options balance of the Company	10,200	12,000	10,200	12,000

Included in the above is the Directors' compensation which is disclosed in Note 38.

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 financial years 2010 and 2009 for loans made to key management personnel.

49 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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

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 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

Commercial Banking (continued)

Market Risk Management (continued)

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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

Commercial Banking (continued)

Operational Risk Management (continued)

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 2010 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 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

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 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(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 2010	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	Trading book RM'000	Total RM'000
Assets								
Cash and short-term funds	16,366,214	-	-	-	-	815,287	-	17,181,501
Deposits and placements with banks and other financial institutions	-	5,801,949	1,695,492	143,758	57,482	70	-	7,698,751
Securities held at fair value through profit or loss	-	-	-	-	-	-	9,308,836	9,308,836
Available-for-sale securities	139,216	422,083	292,034	4,922,251	1,681,510	639,586 *	-	8,096,680
Held-to-maturity securities	594,875	735,699	484,542	4,904,880	118,521	28,347 *	-	6,866,864
Loans, advances and financing								
- performing	32,198,018	72,047	324,176	3,171,795	2,884,592	(572,850) ^	-	38,077,778
- non performing	-	-	-	-	-	444,464 ^	-	444,464
Clients' and brokers' balances	-	-	-	-	-	155,623	-	155,623
Other receivables	-	-	-	-	-	2,646,389	-	2,646,389
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	398,666	-	398,666
Tax recoverable	-	-	-	-	-	6,119	-	6,119
Investment in associated company	-	-	-	-	-	1,172,175	-	1,172,175
Investment in jointly controlled entity	-	-	-	-	-	76,023	-	76,023
Deferred tax assets	-	-	-	-	-	176,138	-	176,138
Prepaid lease payments	-	-	-	-	-	17,260	-	17,260
Property and equipment	-	-	-	-	-	641,659	-	641,659
Investment properties	-	-	-	-	-	1,680	-	1,680
Goodwill arising from consolidation	-	-	-	-	-	574,408	-	574,408
Intangible assets	-	-	-	-	-	54,415	-	54,415
Non-current assets held for sale	-	-	-	-	-	346,939	-	346,939
Total assets	49,298,323	7,031,778	2,796,244	13,142,684	4,742,105	7,622,398	9,308,836	93,942,368

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(a) Interest/profit rate risk (continued)

	The Group							
	2010							
	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	Trading book RM'000	Total RM'000
Liabilities								
Deposits from customers	35,616,326	8,716,843	15,951,132	1,659,228	-	7,537,367	-	69,480,896
Deposits and placements of banks and other financial institutions	2,676,793	1,722,634	71,213	-	-	6,753	-	4,477,393
Bills and acceptance payable	2,510	15,592	7,112	-	-	278,926	-	304,140
Clients' and brokers' balances	-	-	-	-	-	262,415	-	262,415
Payables and other liabilities	-	-	-	-	-	4,942,138	-	4,942,138
Provision for claims	-	-	-	-	-	52,727	-	52,727
Provision for taxation	-	-	-	-	-	105,306	-	105,306
Bank loans	53,000	-	350,000	119,751	-	-	-	522,751
Commercial paper	109,866	109,641	-	-	-	-	-	219,507
Subordinated obligations	-	-	-	650,454	-	-	-	650,454
Insurance funds	-	-	-	-	-	5,175,709	-	5,175,709
Liabilities directly associated with non-current assets held for sale	-	-	-	-	-	320,102	-	320,102
Total liabilities	38,458,495	10,564,710	16,379,457	2,429,433	-	18,681,443	-	86,513,538
Total interest rate sensitivity gap	10,839,828	(3,532,932)	(13,583,213)	10,713,251	4,742,105			

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(a) Interest/profit rate risk (continued)

The Group 2009	Non-trading book: Up to 1 month RM'000	Non-trading book: >1 – 3 months RM'000	Non-trading book: >3 – 12 months RM'000	Non-trading book: >1 – 5 years RM'000	Non-trading book: Over 5 years RM'000	Non-trading book: Non-interest/ profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
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	-	-	-	-	-	1,856,989	-	1,856,989
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
Total assets	51,504,878	5,576,195	1,761,237	9,150,622	5,159,348	6,164,570	7,092,273	86,409,123

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(a) Interest/profit rate risk (continued)

	The Group							
	2009							
	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	Trading book RM'000	Total RM'000
Liabilities								
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
Borrowings								
- 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
Total liabilities	39,413,812	9,986,760	13,651,988	1,473,819	-	15,128,422	-	79,654,801
Total interest rate sensitivity gap	12,091,066	(4,410,565)	(11,890,751)	7,676,803	5,159,348			

* Allowance for impairment and shares are included under non-interest sensitive component.

^ Includes specific and general allowances amounting to RM857,809,000 (2009: RM876,199,000).

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(a) Interest/profit rate risk (continued)

	The Company							
	2010							
	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 sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash and short term funds	11,990	-	-	-	-	51	-	12,041
Securities held at fair value through profit or loss	-	-	-	-	-	-	23,014	23,014
Other receivables	-	-	-	-	-	288,513	-	288,513
Tax recoverable	-	-	-	-	-	4,700	-	4,700
Investment in subsidiary companies	-	-	-	-	-	2,278,996	-	2,278,996
Property and equipment	-	-	-	-	-	1,954	-	1,954
Intangible asset	-	-	-	-	-	124	-	124
Total assets	11,990	-	-	-	-	2,574,338	23,014	2,609,342
Liabilities								
Payables and other liabilities	-	-	-	-	-	5,252	-	5,252
Borrowings								
- Bank loans	31,000	-	350,000	119,751	-	-	-	500,751
- Commercial papers	109,866	109,641	-	-	-	-	-	219,507
Total liabilities	140,866	109,641	350,000	119,751	-	5,252	-	725,510
Total interest rate sensitivity gap	(128,876)	(109,641)	(350,000)	(119,751)	-			

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(a) Interest/profit rate risk (continued)

	The Company							
	2009							
	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 sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
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
Total assets	2,500	-	-	-	-	2,126,801	18,950	2,148,251
Liabilities								
Payables and other liabilities	-	-	-	-	-	6,391	-	6,391
Borrowings								
- Bank loans	-	-	31,000	-	-	-	-	31,000
- Commercial papers	249,757	129,471	-	-	-	-	-	379,228
- Medium term notes	40,000	-	-	-	-	-	-	40,000
Total liabilities	289,757	129,471	31,000	-	-	6,391	-	456,619
Total interest rate sensitivity gap	(287,257)	(129,471)	(31,000)	-	-			

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(a) Interest/profit rate risk (continued)

The table below summarises the effective average interest rates by major currencies for each class of financial asset and financial liabilities.

	The Group			
	2010		2009	
	RM %	USD %	RM %	USD %
Financial assets				
Cash and short term funds	2.3	0.9	2.1	1.4
Deposits and placement with banks and other financial institutions	2.3	0.9	2.2	1.4
Securities held at fair value through profit and loss	3.6	2.2	3.0	-
Available-for-sale securities	4.4	2.0	4.1	3.3
Held-to-maturity securities	3.4	-	3.1	-
Loans, advances and financing	5.9	1.1	6.0	1.5
Financial liabilities				
Deposits from customers	2.0	13.6	2.1	5.2
Deposits and placements of banks and other financial institutions	1.7	0.5	1.3	0.5
Bills and acceptance payable	2.7	-	1.8	-
Borrowings				
- Bank loans	3.3	-	3.3	-
- Commercial papers	2.7	-	2.7	-
- Medium term notes	-	-	7.6	-
Subordinated obligations	-	5.3	-	5.2

	The Company			
	2010		2009	
	RM %	USD %	RM %	USD %
Financial assets				
Cash and short term funds	2.1	-	2.0	-
Financial liabilities				
Borrowings				
- Bank loans	3.3	-	3.5	-
- Commercial paper	2.7	-	2.7	-
- Medium term notes	-	-	7.6	-

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

The following table sets out the credit risk concentration of the Group by classes of financial assets:

The Group 2010	Short term funds and placements with financial institutions RM'000	Securities held at fair value through profit or loss+ RM'000	Available-for-sale securities* RM'000	Held-to-maturity securities^ RM'000	Loans, advances and financing# RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	On-balance sheet total RM'000	Treasury related commitments and contingencies RM'000	Credit related commitments and contingencies RM'000
Agriculture	-	-	10,076	-	721,194	-	-	-	731,270	130,938	395,856
Mining and quarrying	-	6,790	-	-	91,494	-	-	-	98,284	10,386	20,888
Manufacturing	-	-	102,506	289	3,729,231	-	-	-	3,832,026	445,375	2,837,331
Electricity, gas and water	-	14,958	159,861	103,125	104,930	-	643	-	383,517	-	88,319
Construction	-	10,355	5,115	480	626,104	-	-	-	642,054	-	449,750
Real estate	-	9,893	-	-	19,496	-	-	-	29,389	-	-
General commerce	-	-	1,796	72,061	3,235,264	-	-	-	3,309,121	2,266	2,929,415
Transport, storage and communications	-	21,936	86,455	18,144	343,811	-	274	-	470,620	1,070	205,538
Finance, insurance and business services	12,594,426	6,423,499	2,094,983	1,912,180	3,700,992	8,208	33,368	-	26,767,656	76,555,182	5,245,101
Government and government agencies	12,285,826	2,800,150	4,450,176	4,659,513	-	-	154,702	398,666	24,749,033	-	-
Purchase of securities	-	-	-	-	43,960	80,599	-	-	124,559		267,940
Education, health and others	-	-	-	-	305,536	-	-	-	305,536	-	88,457
Household	-	-	-	-	25,644,488	-	-	-	25,644,488	-	12,763,801
Others	-	-	634,878	73,493	488,635	66,816	6,221	-	1,270,043	139,201	314,304
	24,880,252	9,287,581	7,545,846	6,839,285	39,055,135	155,623	195,208	398,666	88,357,596	77,284,418	25,606,700

+ Excludes equity instruments amounting to RM21,255,000

* Excludes equity instruments amounting to RM550,834,000

^ Excludes equity instrument (net of impairment losses) amounting to RM27,579,000

Excludes general allowances and net fair value gain arising from fair value hedges amounting to RM579,618,000 and RM46,725,000 respectively

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(b) Credit risk (continued)

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 RM'000	Securities held at fair value through profit or loss+ RM'000	Available-for-sale securities* RM'000	Held-to-maturity securities^ RM'000	Loans, advances and financing# RM'000	Clients' and brokers' balances RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	On-balance sheet total RM'000	Treasury related commitments and contingencies RM'000	Credit related commitments and contingencies 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	-	20,717,365	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	145,821	-	-	213,815	-	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	74,331	5,131	-	1,587,178	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	82,180,010	58,419,844	20,177,066

+ Excludes equity instruments amounting to RM5,801,000

* Excludes equity instruments amounting to RM427,459,000

^ Excludes equity instrument (net of impairment losses) amounting to RM27,578,000

Excludes general allowances and net fair value gain arising from fair value hedges amounting to RM546,080,000 and RM70,273,000, respectively

(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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(c) Fair value of financial instruments (continued)

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.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

49 FINANCIAL INSTRUMENTS (continued)

(c) Fair value of financial instruments (continued)

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:

	The Group			
	2010		2009	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
On-balance sheet items				
Financial assets:				
Loans, advances and financing#	**38,522,242**	**38,149,936**	35,498,266	34,957,291

\# 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 financial 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, investment in associated company, investment in jointly controlled entity, property and equipment, intangible assets and deferred tax assets.

50 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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

50 EQUITY COMPENSATION BENEFITS (continued)

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

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 HLFG 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.

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

	The Group			
	2010		2009	
	Number of trust shares held RM'000	Market value RM'000	Number of trust shares held RM'000	Market value RM'000
At 1 July	**17,230**	**78,171**	16,142	73,177
Shares purchased	-	-	1,088	4,994
At 30 June	**17,230**	**78,171**	17,230	78,171

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for the financial year ended 30 June 2010
(continued)

50 EQUITY COMPENSATION BENEFITS (continued)

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

The number and market values of the ordinary shares held by the Trustee are as follows: (continued)

	The Company			
	2010		2009	
	Number of trust shares held RM'000	Market value RM'000	Number of trust shares held RM'000	Market value RM'000
At 1 July	14,461	65,750	15,603	71,260
Shares purchased	-	-	1,088	4,994
Shares transferred to HLA ESOS Trust	-	-	(2,230)	(10,504)
At 30 June	14,461	65,750	14,461	65,750

The ordinary shares options of the Company granted under the ESOS Scheme are as follows:

30 June 2010					
Grant date	Performance measurement Period	As at 30-Jun-09	Granted	Cancelled/ Ceased	As at 30-Jun-10
16-Mar-07	July 2006 – June 2009 *	1,440,000	-	(720,000)	720,000
16-Mar-07	July 2006 – June 2009 ^	1,440,000	-	(720,000)	720,000
16-Mar-07	July 2006 – June 2009 #	720,000	-	(360,000)	360,000
16-Mar-07	July 2006 – June 2011 *	3,360,000	-	-	3,360,000
16-Mar-07	July 2006 – June 2011 ^	3,360,000	-	-	3,360,000
16-Mar-07	July 2006 – June 2011 #	1,680,000	-	-	1,680,000
		12,000,000	-	(1,800,000)	10,200,000

30 June 2009					
Grant date	Performance measurement Period	As at 30-Jun-08	Granted	Cancelled/ Ceased	As at 30-Jun-09
16-Mar-07	July 2006 – June 2009 *	1,500,000	-	(60,000)	1,440,000
16-Mar-07	July 2006 – June 2009 ^	1,500,000	-	(60,000)	1,440,000
16-Mar-07	July 2006 – June 2009 #	750,000	-	(30,000)	720,000
16-Mar-07	July 2006 – June 2011 *	3,500,000	-	(140,000)	3,360,000
16-Mar-07	July 2006 – June 2011 ^	3,500,000	-	(140,000)	3,360,000
16-Mar-07	July 2006 – June 2011 #	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")
^ The exercise period is from 13th month up to 18th month from the Vesting Date
# The exercise period is from 25th month up to 30th month from the Vesting Date

Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

50 EQUITY COMPENSATION BENEFITS (continued)

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

Out of the outstanding options, 1,800,000 units of options were exercisable.

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 2010 had an exercise price of RM5.92 (2009: RM5.92) and a weighted average remaining contractual life (from grant date to the end of exercise period) of 5 years.

51 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) On 9 January 2009, Hong Leong Bank Berhad ("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) Vietnamese Dong. 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 on 9 July 2009 and had commenced operations on 8 October 2009.

(b) On 8 April 2009, Hong Leong Financial Group Berhad ("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 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/acquisition of the following equity interests:

(i) Proposed transfer of 100% equity interest in Hong Leong Insurance (Asia) Limited ("HLIA") from Allstate Health Benefits Sdn Bhd, a wholly-owned subsidiary of Hong Leong Assurance Berhad ("HLA"), to HLAH ("Proposed HLIA Transfer");

(ii) Proposed transfer of 10% equity interest in Hong Leong Tokio Marine Takaful Berhad ("HLTMT") from HLA to HLAH ("Proposed Transfer of 10% in HLTMT"); and

(iii) Proposed acquisition by HLAH of 55% equity interest in HLTMT from HLB ("Proposed Acquisition").

The considerations for the Proposed Rationalisation would 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 considerations for the Proposed Rationalisation would be paid wholly in cash.

The Proposed HLIA Transfer was completed on 31 July 2009 and hence HLIA became an indirect wholly-owned subsidiary of HLFG via HLAH on even date. The Proposed Transfer of 10% of HLTMT and Proposed Acquisition were completed on 1 September 2009 and hence, HLTMT became an indirect subsidiary of HLFG via HLAH on the same date.

(c) On 16 December 2009, HLFG announced that it had entered into a SPA with HLAH for the transfer of 100% equity interest in HLA from HLFG to HLAH ("the Transfer").

The consideration for the Transfer would be based on the consolidated net assets of HLA as at 31 December 2009 and would be satisfied via :

(i) issuance of new ordinary shares and/or redeemable preference shares at an issue price of RM1.00 each;
(ii) cash

or any combination thereof.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

51 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (continued)

(c) The Transfer was completed on 1 January 2010 and hence HLA became an indirect wholly-owned subsidiary of HLFG via HLAH on that date.

(d) On 20 October 2009, HLFG announced that the liquidator of Autoweb Sdn Bhd ("Autoweb"), a wholly-owned subsidiary of HLFG Assets Sdn Bhd which was in turn a wholly-owned subsidiary of HLFG, had convened a Final Meeting on 20 October 2009 to conclude the member's voluntary liquidation of Autoweb and a Return by the Liquidator Relating to the Final Meeting was lodged on 20 October 2009 with the Companies Commission of Malaysia and the Official Receiver. On the expiration of 3 months after the said lodgement date, Autoweb will be dissolved. Hence, Autoweb was dissolved on 20 January 2010.

(e) On 7 January 2010, HLFG announced that the liquidator of Natcap Portfolio Sdn Bhd ("Natcap"), a wholly-owned subsidiary of HLFG Assets Sdn Bhd which was in turn a wholly-owned subsidiary of HLFG, had convened a Final Meeting on 4 January 2010 to conclude the member's voluntary liquidation of Natcap and a Return by the Liquidator Relating to the Final Meeting was lodged on 7 January 2010 with the Companies Commission of Malaysia and the Official Receiver. On the expiration of 3 months after the said lodgement date, Natcap will be dissolved. Hence, Natcap was dissolved on 7 April 2010.

(f) The rights issue of HLG Capital Berhad ("HLGC") was completed on 22 October 2009 and the shareholdings of HLFG had increased to 199,663,227 ordinary shares of RM1.00 each, representing 80.87% of the issued and paid-up share capital of HLGC.

(g) HLFG had on 25 March 2010 disposed 4,400,000 ordinary shares of RM1.00 each in HLGC ("the Disposal") and the shareholding of HLFG in HLGC after the Disposal had decreased to 195,263,227 ordinary shares of RM1.00 each, representing 79.09% of the issued and paid-up share capital of HLGC.

(h) On 23 February 2010, HLFG announced that HLA, a wholly-owned subsidiary of HLAH which is in turn a wholly-owned subsidiary of HLFG, had placed its wholly-owned subsidiary Allstate Health Benefits Sdn Bhd under Member's Voluntary Winding-up pursuant to Section 254(1)(b) of the Companies Act, 1965.

(i) On 2 November 2009, HLB announced that it had entered into a joint venture agreement with Bank of Chengdu Co., Ltd ("BOCD") to form a joint venture company ("JV Co") to be known as Sichuan Jincheng Consumer Finance Limited Liability Company to operate a licensed consumer finance company in Chengdu, Sichuan, the People's Republic of China. HLB will have 49% equity interest whilst BOCD will have the balance 51% equity interest in the JV Co.

The JV Co was incorporated on 26 February 2010 as Sichuan Jincheng Consumer Finance Limited Company ("SJCF"). The approved registered capital of SJCF is RMB320 million. The shareholding structure and investment composition of SJCF are BOCD at 51% (a contribution of RMB163.2 million) and HLB at 49% (a contribution of RMB156.8 million). SJCF commenced operations on 1 March 2010.

(j) On 16 June 2010, HLAH had acquired 2 ordinary shares of RM1.00 each fully paid, representing the entire equity interest in HLAH Assets Sdn Bhd, for a total cash consideration of RM2.00.

(k) On 17 December 2009, HLB announced that Bank Negara Malaysia ("BNM") had, vide its letter dated 17 December 2009, no objection for HLB to commence negotiations with certain shareholders of EON Capital Berhad ("EON Cap") for a potential acquisition of the assets and liabilities, including equity interests, in EON Cap.

On 6 January 2010, HLB announced that BNM had, vide its letter dated 6 January 2010, no objection for HLB to commence negotiations with the Boards of EON Cap and EON Bank Berhad ("EON Bank") for the proposed purchase of the assets and liabilities of EON Cap and EON Bank, including EON Cap's equity interest in EON Bank.

On 21 January 2010, CIMB Investment Bank Berhad ("CIMB"), on behalf of HLB, announced that HLB had made an offer to acquire the entire assets and liabilities of EON Cap at an aggregate purchase consideration of RM4,921,781,997 to be satisfied fully in cash.

Notes to the Financial Statements
for the financial year ended 30 June 2010
(continued)

51 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (continued)

(k) On 27 January 2010, CIMB, on behalf of HLB, announced that HLB and EON Cap had mutually agreed to an extension of time until 2 February 2010 for EON Cap to confirm the following:

(i) to table the offer for consideration and approval by the shareholders of EON Cap at a general meeting and take steps to issue and despatch within 5 weeks from 21 January 2010 ("Date of Offer") the notice of the general meeting and the shareholders' circular; and

(ii) to finalise and make submissions to the relevant authorities within 4 weeks from the Date of Offer.

On 2 February 2010, CIMB, on behalf of HLB, announced that HLB had received a letter from EON Cap informing HLB that the Board of Directors of EON Cap had resolved not to table the offer for consideration and approval by EON Cap's shareholders, and not to submit any application to the relevant authorities for approval of the offer. Accordingly, the offer on 21 January 2010 has lapsed.

On 30 March 2010, CIMB, on behalf of HLB, announced that HLB made a new offer to acquire the entire assets and liabilities of EON Cap at an aggregate purchase consideration of RM4,921,781,997 to be satisfied fully in cash.

On 1 April 2010, CIMB, on behalf of HLB, announced that HLB has made a revised offer to acquire the entire assets and liabilities of EON Cap at an aggregate purchase consideration of RM5,060,423,744 to be satisfied fully in cash ("Offer").

On 2 April 2010, CIMB, on behalf of HLB, announced that HLB had received confirmation from EON Cap to, amongst others, table the Offer for consideration and approval by EON Cap's shareholders and submit the applications to the Minister of Finance and other relevant regulatory authority for approval of the Offer, in accordance with the terms of the Offer.

On 23 April 2010, CIMB, on behalf of HLB, announced the following:

(i) details on the proposed acquisition of the entire assets and liabilities of EON Cap at an offer price of RM5,060,423,744 to be satisfied fully in cash ("Proposed Acquisition");

(ii) that HLB proposes to undertake a renounceable rights issue of new ordinary shares of RM1.00 each in HLB ("Rights Shares") to the entitled shareholders of HLB to raise gross proceeds of up to RM1.6 billion ("Proposed Rights Issue"); and

(iii) that HLB had made an application to BNM on the Proposed Acquisition and Proposed Rights Issue.

On 27 May 2010, CIMB on behalf of HLB announced that Bursa Malaysia Securities Berhad ("Bursa Securities") had, through its letter dated 26 May 2010, given its approval for the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities.

On 21 June 2010, CIMB, on behalf of the Bank, announced that the Bank had, pursuant to various discussions with EON Cap, issued 2 letters dated 18 June 2010 and 19 June 2010 to EON Cap clarifying or modifying the revised offer by the Bank, details as set out in the said announcement.

(l) On 29 January 2010, HLFG announced that its wholly-owned subsidiary, HLAH proposed to issue up to RM2.0 billion in nominal valiue of medium term notes ("MTN") under a proposed MTN Programme to raise funds for its working capital and investment purpose.

On 23 April 2010, the Securities Commission has approved the application subject to certain operational terms and conditions being fulfilled.

52 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

(a) On 22 April 2010, HLG Capital Berhad ("HLGC") announced that two of its wholly owned subsidiaries, namely Hong Leong Investment Bank Berhad ("HLIB") and HLG Futures Sdn Bhd ("HLG Futures") had, on 22 April 2010, entered into a Business Transfer Agreement, whereby HLG Futures will transfer all its assets, liabilities, activity, business and the undertaking of the business carried on by HLG Futures as a going concern ("HLG Futures Business") to HLIB ("Proposed Integration") with effect from 31 July 2010 (or such other date as may be agreed by the parties hereto) ("Transfer Date").

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

52 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR (continued)

(a) The consideration for the transfer of the HLG Futures Business will be based on the value of the net assets of HLG Futures as at the Transfer Date, and will be satisfied by HLIB in cash.

The Proposed Integration is subject to, inter alia, the following:

(i) obtaining the order of the High Court for the vesting of HLG Futures Business in HLIB;

(ii) the approval of the Minister of Finance ("MoF") through the Securities Commission ("SC"); and

(iii) the approval of the SC for the application for a Capital Markets Service licence to carry on the business of trading in futures contracts by HLIB.

SC had, vide its letter dated 18 June 2010, informed that the transfer of HLG Futures business to HLIB has been approved pursuant to Section 139 of the Capital Markets and Services Act 2007.

On 12 July 2010, HLIB and HLG Futures entered into a Supplemental Business Transfer Agreement to revise the Transfer Date to 2 October 2010.

On 28 July 2010, the High Court has granted its approval for the Proposed Integration.

(b) On 18 June 2010, HLIB, on behalf of HLA Holdings Sdn Bhd ("HLAH") and Hong Leong Assurance Berhad ("HLA"), a wholly-owned subsidiary of HLAH, announced that HLAH and HLA had entered into various agreements with Mitsui Sumitomo Insurance Company, Limited ("MSIJ") and its subsidiary, MSIG Insurance (Malaysia) Bhd ("MSIM"), in relation to the insurance businesses of HLA and MSIM ("Proposed Strategic Partnership").

The Proposed Strategic Partnership involved the following:

(i) Proposed merger of both Non-Life Businesses of HLA and MSIM via a transfer of the Non-Life Business of HLA (except for certain excluded assets and liabilities) to MSIM for a consideration of RM618,646,291 to be satisfied via the issuance of such number of new shares as shall represent 30% of the ordinary issued and paid-up capital of MSIM, in accordance with the terms of the conditional business transfer agreement dated 18 June 2010;

(ii) Upon completion of the Proposed Non-Life Business Merger, HLAH will dispose of 60,000,000 ordinary shares of RM1.00 each (representing a 30% equity interest) in HLA to MSIJ for a cash consideration of RM940 million in accordance with the terms of the conditional sale and purchase agreement dated 18 June 2010; and

(iii) Upon completion of the Proposed Strategic Partnership, Hong Leong Financial Group Berhad ("HLFG") (through its subsidiaries) will effectively hold a 30% equity interest in the enlarged MSIM entity (i.e. the combined Non-Life Business of HLA and MSIM) and a 70% equity interest in HLA (which will only be involved in Life Business). MSIJ will hold the remaining 30% equity interest in HLA.

The shareholders of HLFG has at the Extraordinary General Meeting convened on 15 July 2010 approved the Proposed Strategic Partnership.

(c) On 2 July 2010, Hong Leong Bank Berhad ("HLB") had acquired 2 ordinary shares of RM1.00 each fully paid, representing the entire equity interest in Prominic Sdn Bhd ("Prominic"), for a total cash consideration of RM2.00.

Prominic was incorporated on 25 March 2010 in Malaysia. The authorised capital of Prominic is RM100,000 divided into 100,000 ordinary shares of RM1.00 each, of which 2 ordinary shares of RM1.00 each have been issued and fully paid-up.

Prominic is currently dormant and its intended business activity is to issue Subordinated Notes under a Stapled Securities structure and to on-lend the proceeds from the issuance to HLB, the issuer of the Capital Securities.

Prominic was converted into a public company on 12 July 2010 and is now known as Prominic Berhad.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

52 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR (continued)

(d) On 16 July 2010, CIMB Investment Bank Berhad ("CIMB"), on behalf of HLB, announced that HLB had received a letter dated 12 July 2010 from EON Capital Berhad ("EON Cap") requesting certain amendments to the terms of the Offer by HLB to acquire the entire assets and liabilities of EON Cap and the timelines as indicated in HLB's letters dated 18 June 2010 and 19 June 2010.

HLB had, in its letter dated 15 July 2010 to EON Cap, noted the amendments and timelines proposed by EON Cap and advised EON Cap as follows:

(i) HLB agrees to EON Cap's proposal that EON Cap may only accept the Offer by delivering to HLB the acceptance as set out in HLB's letter of Offer dated 1 April 2010, duly signed by EON Cap no later than 5 business days immediately following the date after the last of the approvals for the Offer;

(ii) HLB agrees that the extraordinary general meeting of EON Cap to approve the proposed acquisition of the entire assets and liabilities of EON Cap based on the offer price of RM5,060,423,744 to be satisfied fully in cash ("Proposed Acquisition") shall be held by 20 August 2010, and all the approvals from Bank Negara Malaysia ("BNM")/MoF, SC and shareholders of EON Cap and HLB, on terms and conditions acceptable to HLB, are obtained and the acceptance of the Offer by EON Cap is given by 30 November 2010; and

(iii) the Offer is subject to all the timelines mentioned in (i) and/or (ii) above being met, unless extended by HLB.

(e) On 3 August 2010, CIMB, on behalf of HLB, announced that HLB had received the approval of the MoF through BNM for, inter alia, the following:

(i) Approval under Section 45(1)(a) of the Banking and Financial Institutions Act, 1989 ("BAFIA") for HLB to acquire interest in shares of more than 5% of the shares in EON Bank Berhad ("EON Bank") and MIMB Investment Bank Berhad ("MIMB");

(ii) Approval under Section 49(7) of BAFIA for HLB to enter into an agreement or arrangement with EON Cap which would result in a change in control of EON Bank and MIMB to HLB as provided under Section 49(1)(a) of BAFIA;

(iii) Approval under Section 22(2) of the Islamic Banking Act, 1993 ("IBA") for HLB to enter into an agreement or arrangement with EON Cap which would result in a disposal of EONCAP Islamic Bank Berhad ("EONCAP Islamic") shares to HLB as provided under Section 22(1)(a)(i) of IBA;

(iv) Approval under Section 49(7) of BAFIA for HLB to enter into an agreement or arrangement with EON Bank which would result in the transfer of the banking operations of EON Bank to HLB as provided under Section 49(1)(b) of BAFIA; and

(v) Approval under Section 22(2) of IBA for Hong Leong Islamic Bank Berhad ("HLISB") to enter into an agreement or arrangement with EONCAP Islamic which would result in the transfer of the banking operations of EONCAP Islamic to HLISB as provided under Section 22(1)(a)(i) of IBA.

BNM had also given its approval, amongst others, for HLB to acquire the subsidiaries of EON Cap, including EON Bank, EONCAP Islamic and MIMB pursuant to Section 29 of BAFIA. HLB is also required to finalise the position of MIMB by 31 December 2010 in line with BNM's policy which prohibits a domestic banking group from holding 2 investment bank licenses.

(f) On 3 August 2010, HLB announced that it had on 3 August 2010 fully redeemed its US$200,000,000 Subordinated Callable Bonds Due 2015 ("Bonds"). The Bonds had been delisted from the Official Listing of the Singapore Exchange Securities Trading Limited following the redemption.

The redemption of the Bonds was funded via HLB's internally generated funds pending the issuance of its Ringgit Tier 2 Subordinated Debt of RM700 milion.

(g) On 10 August 2010, HLB announced that it had completed its inaugural Ringgit issuance of RM700 million Tier 2 Subordinated Debt ("Sub Debt"). The Sub Debt formed part of the Tier 2 Subordinated Notes Programme of up to RM1.7 billion, as approved by the Securities Commission vide its letter dated 27 July 2010.

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for the financial year ended 30 June 2010
(continued)

52 SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR (continued)

(g) The Sub Debt, rated AA2 by RAM Rating Services Berhad, has a maturity of 10 years. Subject to BNM's approval, HLB has the option to redeem the Sub Debt early at the end of year 5 and on each subsequent coupon payment dates thereafter.

53 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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
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54 ACQUISITION/DISPOSAL OF SUBSIDIARIES

(a) Acquisition during the prior financial year

(i) Acquisition of SBB Securities Sdn Bhd (now known as RC Holdings Sdn Bhd) ("RC Holdings")

On 22 October 2008, Hong Leong Investment Bank Berhad 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.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

54 ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(a) Acquisition during the prior financial year (continued)

(ii) Acquisition of certain assets and liabilities of Southern Investment Bank Berhad ("SIBB")

On 31 January 2009, Hong Leong Investment Bank Berhad 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.

(b) Disposal during the prior financial year

(i) 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:

	2009 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

Notes to the Financial Statements
for the financial year ended 30 June 2010
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54 ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(b) Disposal during the prior financial year (continued)

(i) Disposal of 100% equity interests in Raikon Building Management Co. Sdn Bhd ("Raikon") (continued)

The net cash flow on disposal was determined as follows:

	2009 RM'000
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

55 PRIOR YEAR ADJUSTMENT AND EFFECT OF CHANGES IN ACCOUNTING POLICIES

(a) During the financial year, HLB has made a major enhancement to the general ledger system from a single currency to a multi currency general ledger. Arising from the system enhancement, the Bank noted differences in respect of revaluation of foreign currency balances. These differences arose from transactions that occurred before financial year ended 30 June 2009. Whilst the differences were not material to the current and prior financial year results, HLB has effected a prior year adjustment in accordance with FRS 108 - Accounting Policies, Changes in Accounting Estimates and Errors.

These differences do not affect the Group's financial statements for the financial year ended 30 June 2009 and 30 June 2010.

(b) Prior to 1 July 2009, Life insurance liabilities were assessed using prescribed fixed interest rates for discounting purposes, while future benefits and future income were assessed without considering the relevant expenses, and fixed mortality assumptions.

The Risk-Based Capital ("RBC") Framework effective 1 July 2009 had introduced a new measurement basis for Life insurance liabilities, requiring insurers to assess insurance liabilities based on current assumptions, reflecting the best estimate at the time, increased with a margin for risk and adverse deviation. This includes the consideration of all cash flows, including estimates of future expenses.

The effects of change in accounting policy arising from the implementation of the RBC Framework were made to the opening balances of the Group as at 1 July 2009, as allowed under the transitional provisions of the RBC Framework.

Notes to the Financial Statements

for the financial year ended 30 June 2010
(continued)

55 PRIOR YEAR ADJUSTMENT AND EFFECT OF CHANGES IN ACCOUNTING POLICIES (continued)

The following discloses the adjustments that have been made to each line item in the Group's balance sheet and equity as at 2008 and 2009:

	The Group				
	As previously reported as at 30 June RM'000	(i) Effects from prior year adjustment RM'000	As restated as at 30 June RM'000	(ii) Effects from changes in accounting policies RM'000	Opening balance as at 1 July RM'000
2009					
Balance sheets					
Other receivables	1,929,616	(72,627)	1,856,989	-	1,856,989
2009					
Statement of changes in equity					
Retained profits	2,179,261	(72,627)	2,106,634	(8,369)	2,098,265
2008					
Statement of changes in equity					
Retained profits	1,767,888	(72,627)	1,695,261	-	1,695,261

56 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 30 July 2010.

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 48 to 157 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 2010 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
8 September 2010

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 48 to 157 are to the best of my knowledge and belief correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the above named Chew Seong Aun)
at Kuala Lumpur in Wilayah Persekutuan on 8 September 2010) **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
(Incorporated in Malaysia) (Company no: 8024-W)

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 2010 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 48 to 157.

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 2010 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 12 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
(Incorporated in Malaysia) (Company no: 8024-W)
(continued)

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

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/12 (J))
Chartered Accountant

Kuala Lumpur
8 September 2010

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty-first Annual General Meeting of Hong Leong Financial Group Berhad ("Company") will be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 26 October 2010 at 11.45 a.m. in order:

1. To lay before the meeting the audited financial statements together with the reports of the Directors and Auditors thereon for the financial year ended 30 June 2010.

2. To approve the payment of Directors' fees of RM347,616 for the financial year ended 30 June 2010, to be divided amongst the Directors in such manner as the Directors may determine. **(Resolution 1)**

3. To re-elect the following retiring Directors:-

   (a) Mr Choong Yee How **(Resolution 2)**
   (b) Ms Yvonne Chia **(Resolution 3)**
   (c) Ms Lim Tau Kien **(Resolution 4)**
   (d) Ms Leong Bee Lian **(Resolution 5)**

4. To pass the following motions as Ordinary Resolutions:-

   (a) "**THAT** YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd), 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)**

   (b) "**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 7)**

5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration. **(Resolution 8)**

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following motions:-

6. **Ordinary Resolution**
   Authority To Directors To Issue Shares

   "**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue shares in the Company, at any time and from time to time, and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." **(Resolution 9)**

7. **Ordinary Resolution**
   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 4 October 2010 ("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
(continued)

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)**

8. **Ordinary Resolution**
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 4 October 2010 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 11)**

9. 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
4 October 2010

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. A member who is an authorised nominee may appoint not more than two proxies in respect of each securities account it holds.

2. The Form of Proxy must be deposited at the Registered Office of the Company at Level 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.

Notice of Annual General Meeting

(continued)

SPECIAL BUSINESS

3. **Ordinary Resolution 9 On Authority To Directors To Issue Shares**

   The proposed Ordinary Resolution, if passed, will give a renewed mandate to the Directors of the Company pursuant to Section 132D of the Companies Act, 1965 ("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 28 October 2009 and which will lapse at the conclusion of the forthcoming Forty-first AGM.

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

4. **Ordinary Resolutions 10 and 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 HLFG 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 4 October 2010 which is dispatched together with the Company's 2010 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 Forty-first 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. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010

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

(a) Distribution Schedule Of Shareholders As At 30 August 2010

Size of Holdings	No. of Shareholders	%	No. of Shares	%
Less than 100	162	3.74	5,808	0.00
100 – 1,000	826	19.08	701,594	0.07
1,001 – 10,000	2,222	51.34	9,504,702	0.90
10,001 – 100,000	898	20.75	27,826,753	2.64
100,001 – less than 5% of issued shares	218	5.04	438,082,090	41.61
5% and above of issued shares	2	0.05	576,646,842	54.78
	4,328	100.00	1,052,767,789	100.00

(b) List Of Thirty Largest Shareholders As At 30 August 2010

	Name of Shareholders	No. of Shares	%
1.	Assets Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	309,566,896	29.41
2.	Assets Nominees (Asing) Sdn Bhd - Guoco Assets Sdn Bhd	267,079,946	25.37
3.	HSBC Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	48,000,000	4.56
4.	CIMB Group Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	47,000,000	4.46
5.	Mayban Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	41,000,000	3.89
6.	Malaysia Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	33,500,000	3.18
7.	ABB Nominee (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Berhad	20,000,000	1.90

Other Information
(continued)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010 (continued)

(b) List Of Thirty Largest Shareholders As At 30 August 2010 (continued)

	Name of Shareholders	No. of Shares	%
8.	Scotia Nominees (Tempatan) Sdn Bhd - Hong Leong Company (Malaysia) Bhd	16,500,000	1.57
9.	AmTrustee Berhad - Exempt AN for Hong Leong Financial Group Berhad (HLFG-ESOS)	15,000,000	1.43
10.	EB Nominees (Tempatan) Sendirian Berhad - Hong Leong Company (Malaysia) Berhad	15,000,000	1.43
11.	Cartaban Nominees (Asing) Sdn Bhd - Exempt AN for Barclays Capital Securities Ltd	10,995,700	1.04
12.	Valuecap Sdn Bhd	9,610,100	0.91
13.	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad - Hong Leong Company (Malaysia) Berhad	8,400,000	0.80
14.	HSBC Nominees (Asing) Sdn Bhd - Exempt AN for The Bank Of Nova Scotia Asia Limited	8,265,300	0.79
15.	Public Nominees (Tempatan) Sdn Bhd -Hong Leong Company (Malaysia) Berhad	7,806,458	0.74
16.	HSBC Nominees (Tempatan) Sdn Bhd - Employees Provident Fund	7,513,200	0.71
17.	CIMB Group Nominees (Tempatan) Sdn Bhd - Chua Ma Yu	6,500,000	0.62
18.	Low Poh Weng	6,208,700	0.59
19.	Assets Nominees (Tempatan) Sdn Bhd - Soft Portfolio Sdn Bhd	6,057,000	0.58
20.	HSBC Nominees (Asing) Sdn Bhd - The Bank Of Nova Scotia	6,020,200	0.57
21.	Khalid Ahmad Bin Sulaiman	5,544,000	0.53
22.	YBhg Tan Sri Quek Leng Chan	4,989,600	0.47
23.	Chua Holdings Sdn Bhd	4,824,549	0.46
24.	Hong Bee Hardware Company, Sdn. Berhad	4,523,400	0.43
25.	Employees Provident Fund Board	4,399,899	0.42
26.	RHB Capital Nominees (Tempatan) Sdn Bhd - Poh Yang Hong	4,004,800	0.38

Other Information
(continued)

2. ANALYSIS OF SHAREHOLDINGS AS AT 30 AUGUST 2010 (continued)

(b) List Of Thirty Largest Shareholders As At 30 August 2010 (continued)

	Name of Shareholders	No. of Shares	%
27.	HSBC Nominees (Asing) Sdn Bhd - Exempt AN for Credit Suisse	3,591,600	0.34
28.	Cartaban Nominees (Asing) Sdn Bhd - Exempt AN for State Street Bank & Trust Company	3,393,833	0.32
29.	HSBC Nominees (Asing) Sdn Bhd - Vanguard Emerging Markets Stock Index Fund	3,099,000	0.29
30.	RHB Capital Nominees (Tempatan) Sdn Bhd - Poh Soon Sim	3,000,000	0.28
		931,394,181	88.47

(c) Substantial Shareholders

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

	Direct		Indirect	
Shareholders	No. of shares	%	No. of shares	%
Hong Leong Company (Malaysia) Berhad	546,773,354	51.94	267,083,546	25.37[A]
Tan Sri Quek Leng Chan	4,989,600	0.47	824,437,300	78.31[B]
HL Holdings Sdn Bhd	-	-	813,856,900	77.31[C]
Kwek Holdings Pte Ltd	-	-	818,380,300	77.74[B]
Kwek Leng Beng	1,241,321	0.12	818,380,300	77.74[B]
Hong Realty (Private) Limited	-	-	818,380,300	77.74[B]
Hong Leong Investment Holdings Pte Ltd	-	-	818,380,300	77.74[B]
Davos Investment Holdings Private Limited	-	-	818,380,300	77.74[B]
Kwek Leng Kee	-	-	818,380,300	77.74[B]
Quek Leng Chye	1,925,100	0.18	818,380,300	77.74[B]
Guoco Assets Sdn Bhd	267,079,946	25.37	-	-
GuoLine Overseas Limited	-	-	267,079,946	25.37[D]
Guoco Group Limited	-	-	267,079,946	25.37[D]
GuoLine Capital Assets Limited	-	-	267,079,946	25.37[D]

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 company(ies) in which the substantial shareholder has interest
[C] Held through HLCM
[D] Held through GASB

Other Information
(continued)

3. DIRECTORS' INTERESTS AS AT 30 AUGUST 2010

Subsequent to the financial year end, there is no change, as at 30 August 2010, to the Directors' interests in the ordinary shares, preference shares and/or options over ordinary shares and convertible bonds of the Company and/or its related corporations (other than wholly-owned subsidiaries), appearing in the Directors' Report on pages 40 to 44 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:

	Number of ordinary shares/preference shares/*shares issued or to be issued or acquired arising from the exercise of options/convertible bonds	%
Direct Interest		
Ms Yvonne Chia in:		
Hong Leong Bank Berhad	340,000	0.023
	5,840,000 *	-
Indirect Interest		
YBhg Tan Sri Quek Leng Chan in:		
GuocoLeisure Limited	908,175,425	66.38
Hong Leong Industries Berhad	198,585,237 @@	72.82
Bondway Properties Limited (in members' voluntary liquidation)	Nil #	Nil #
Dr Poh Soon Sim in :		
GuocoLand (Malaysia) Berhad	4,190,700 N1	0.598

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

N1 Indirect interest through spouse and/or children pursuant to Section 134(12)(c) of the Companies Act, 1965

Dissolved by members' voluntary liquidation

Other Information
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2010

	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	76	7,490	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	11	2,526	26/06/1997
3.	42, Jalan Pending 93450 Kuching Sarawak	Leasehold - 999 years (31/12/2779)	Branch premises	4,425	28	2,081	27/12/1983
4.	133, 135 & 137 Jalan Kampong Nyabor 96000 Sibu Sarawak	Freehold	Branch premises	4,871	18	3,105	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	19	1,505	29/06/1996
7.	69, 70 & 71 Jalan Dato' Bandar Tunggal 70000 Seremban Negeri Sembilan Darul Khusus	Freehold	Branch premises	6,000	Pre-war	1,356	27/12/1994
8.	26, Lorong Rahim Kajai 14 Taman Tun Dr Ismail 60000 Kuala Lumpur	Freehold	Branch premises	3,750	24	546	30/12/1986
9.	120-122, Jalan Mersing 86000 Kluang Johor Darul Takzim	Leasehold - 99 years (22/8/2063)	Branch premises	3,355	44	681	31/05/1990
10.	100, Jalan Gurney 72100 Bahau Negeri Sembilan Darul Khusus	Freehold	Branch premises	5,107	24	2,449	25/06/1992
11.	12, 14 & 16 Jalan Wong Ah Fook 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	4,174	19	3,788	25/06/1992
12.	6, Jalan Merdeka 96100 Sarikei Sarawak	Leasehold - 60 years (31/12/2029)	Branch premises	2,240	41	97	18/10/1969

Other Information
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2010 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
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	34	31/12/1967
14.	63 & 65, Jalan SS 23/15 47400 Petaling Jaya Selangor Darul Ehsan	Freehold	Branch premises	4,760	15	3,824	28/04/1997
15.	24, Medan Taming 2 Taman Taming Jaya 43300 Balakong Selangor Darul Ehsan	Freehold	Branch premises	3,037	14	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	23	1,206	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	16	216	26/06/1997
18.	Lot 3073 & 3074 Jalan Abang Galau, 97000 Bintulu, Sarawak	Leasehold - 60 years (12/2/2056)	Branch premises	2,582	13	1,230	26/06/1997
19.	Lot 34, Putra Industrial Park 47000 Sungai Buloh Selangor Darul Ehsan	Freehold	Warehouse	96,219	14	2,625	26/01/1995
20.	1540, Jalan Sultan Badlishah 05000 Alor Setar Kedah Darul Aman	Leasehold - 55 years (28/2/2028)	Branch premises	10,619	35	49	30/06/1977
21.	9A & 9B Jalan Kampong Baru 08000 Sungai Petani Kedah Darul Aman	Freehold	Branch premises	9,320	17	900	01/01/1994
22.	45, Jalan Burma 10500 Pulau Pinang	Freehold	Branch premises	14,277	32	2,153	24/11/1978
23.	33A-C, Lintang Angsana Bandar Baru Air Hitam 11500 Pulau Pinang	Leasehold - 83 years (8/4/2082)	Branch premises	4,394	15	511	26/12/1995
24.	55-57, Jalan Yang Kalsom 30250 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	11,720	31	1,136	01/10/1984
25.	27, Jalan Dewangsa 31000 Batu Gajah Perak Darul Ridzuan	Leasehold - 79 years (26/2/2078)	Branch premises	4,694	15	284	24/11/1995

Other Information
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2010 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
26.	75, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan	Freehold	Branch premises	1,900	13	621	15/06/1998
27.	80 & 82, Jalan Othman 1/14 46000 Petaling Jaya Selangor Darul Ehsan	Leasehold - 90 years (15/6/2089)	Branch premises	9,062	20	1,243	01/06/1994
28.	36, Jalan Midah 1 Taman Midah, Cheras 56000 Kuala Lumpur	Freehold	Branch premises	2,700	23	209	30/11/1984
29.	19, Jalan 54, Desa Jaya 52100 Kepong Selangor Darul Ehsan	Leasehold - 99 years (8/3/2081)	Branch premises	5,859	28	360	29/11/1985
30.	55, Jalan Pasar 55100 Kuala Lumpur	Freehold	Branch premises	4,313	30	325	01/04/1980
31.	Lot 111, Jalan Mega Mendung Kompleks Bandar Off Jalan Klang Lama 58200 Kuala Lumpur	Leasehold - 99 years (11/10/2076)	Branch premises	4,978	30	491	31/07/1988
32.	161, Jalan Imbi 55100 Kuala Lumpur	Freehold	Branch premises	2,454	14	2,551	14/02/1996
33.	8A-C, Jalan Station 80000 Johor Bahru Johor Darul Takzim	Freehold	Branch premises	12,854	17	465	22/10/1977
34.	109, Main Road 83700 Yong Peng Johor Darul Takzim	Freehold	Branch premises	2,740	22	211	01/09/1988
35.	31 & 32, Jalan Kundang Taman Bukit Pasir 83000 Batu Pahat Johor Darul Takzim	Freehold	Branch premises	8,932	18	512	05/03/1996
36.	103, Jalan Rahmat 83000 Batu Pahat Johor Darul Takzim	Freehold	Vacant	12,222	36	635	30/06/1977
37.	26 & 28, Jalan Mersing 80050 Johor Bahru Johor Darul Takzim	Freehold	Vacant	7,040	26	1,344	22/05/1995
38.	21, Jalan Tun Razak 27600 Raub Pahang Darul Makmur	Freehold	Branch premises	4,480	24	423	26/06/1986
39.	1, Bentong Heights 28700 Bentong Pahang Darul Makmur	Freehold	Branch premises	5,432	42	38	30/06/1977

Other Information
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2010 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
40.	36, Main Road Tanah Rata 39000 Cameron Highland Pahang Darul Makmur	Leasehold - 99 years (24/11/2039)	Branch premises	1,728	70	141	30/08/1982
41.	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	11	1,907	18/12/1999
42.	2828-G-02 & 2828-1-02 Jalan Bagan Luar 12000 Butterworth Pulau Pinang	Freehold	Branch premises	12,173	11	3,258	18/12/1999
43.	Lots 568-G-17 & 568-1-17 Kompleks Mutiara 3 1/2 Mile Jalan Ipoh 51200 Kuala Lumpur	Freehold	Branch premises	4,945	11	3,330	23/11/1999
44.	Plot No 20, Jalan Bidor Raya 35500 Bidor Perak Darul Ridzuan	Freehold	Branch premises	3,243	11	556	23/11/1999
45.	1, Persiaran Greentown 2 Greentown Business Centre 30450 Ipoh Perak Darul Ridzuan	Leasehold - 99 years (21/11/2094)	Branch premises	7,870	10	1,917	23/11/1999
46.	Lots 39 & 40 Kompleks Munshi Abdullah 75100 Melaka	Leasehold - 99 years (24/2/2084)	Branch premises	5,988	11	1,467	31/05/1991
47.	No. 1 & 2 Jalan Raya 09800 Serdang Kedah Darul Aman	Freehold	Branch premises	5,840	9	422	20/09/2000
48.	133 & 135, Jalan Gopeng 31900 Kampar Perak Darul Ridzuan	Freehold	Branch premises	4,700	9	340	13/12/2000
49.	65-67, Jalan Tun HS Lee 50000 Kuala Lumpur	Freehold	Vacant	2,223	14	4,996	14/10/1996
50.	34, Jalan Yong Shook Lin 46200 Petaling Jaya Selangor Darul Ehsan	Leasehold - 99 years (09/09/2059)	Branch premises	1,875	17	539	26/11/1993
51.	64, Jalan Tun Mustapha 87007 Labuan	Leasehold - 999 years (31/12/2775)	Branch premises	1,370	19	634	30/05/1991
52.	159, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	5	2,608	25/11/2005

Other Information
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2010 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
53.	163, Jalan Imbi 55100 Kuala Lumpur	Freehold	Vacant	1,688	5	2,672	25/10/2005
54.	1, Jalan Ambong Kiri Satu (Jalan 7) Kepong Baru 52100 Kuala Lumpur	Freehold	Vacant	13,300	4	3,846	18/10/2005
55.	114 & 116, Jalan Cerdas Taman Connaught 56000 Kuala Lumpur	Leasehold - 99 years (16/10/2078)	Branch premises	12,200	4	4,110	07/06/2006
56.	Lot A08-A09 Jalan SS 6/5A Dataran Glomac Pusat Bandar Kelana Jaya 47301 Petaling Jaya	Freehold	Branch premises	9,800	4	3,215	06/07/2006
57.	No. 2 Jalan Puteri 2/4 Bandar Puteri Puchong 47100 Selangor Darul Ehsan	Freehold	Branch premises	11,850	3	1	26/06/2007
58.	Tower A PJ City Development 46100 Petaling Jaya Selangor	Leasehold - 99 years (14/08/2094)	Branch premises	194,489	2	76,372	21/07/2008
59.	Lot 942 Jalan Parry 98000 Miri Sarawak	Leasehold - 60 Years (06/04/2057)	Branch Premises	5,496	13	991	31/01/1997
60.	Lot 1, 2 & 3, Block 18 Bandar Indah Mile 4, North Road Bandar Indah Sandakan, Sabah	Freehold	Branch Premises	6,760	10	1,680	08/11/2001
61.	No 3 Persiaran Greentown 4 Greentown Business Centre 30450 Ipoh	Leasehold - 99 Years (21/11/2094)	Branch Premises	8,846	15	555	04/12/1995
62.	Bangunan HLA 7 Jalan Yayasan 86000 Kluang	Leasehold - 99 Years (23/03/2084)	Branch Premises	6,019	21	462	30/12/1989
63.	Wisma Hong Leong 18 Jalan Perak 50450 Kuala Lumpur	Freehold	Office Premises	333,594	9	230,000	13/11/2001
64.	Unit 2.5.1, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,904	17	597	30/06/1993

Other Information
(continued)

4. LIST OF PROPERTIES HELD AS AT 30 JUNE 2010 (continued)

	Location	Tenure	Description of property held	Gross Area (Sq-ft)	Approx. Age (Years)	Net book value (RM 000)	Date of acquisition
65.	Unit 2.1.2, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,904	17	597	30/06/1993
66.	Unit 1.1.5, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,815	17	566	30/06/1993
67.	Unit 1.1.3, 1A Stonor Condominium Off Jalan Conlay 50450 Kuala Lumpur	Leasehold - 99 Years (17/07/2083)	Condominium	1,288	17	401	30/06/1993
68.	14-23 Darul Aman Jalan Tun Ismail 25000 Kuantan Pahang	Freehold	Branch Premises	5,610	17	494	21/02/1993
69.	22, 22A, 22B & 22C Jalan Rubber Lots 342 & 323 Section 9 KTLD 93400 Kuching Sarawak	Leasehold - 874 Years (31/12/2811)	Branch Premises	20,396	13	3,198	27/02/1997
70.	No 1 Persiaran Greentown 4 Pusat Perdagangan Greentown 30450 Ipoh Perak	Leasehold - 99 Years (21/11/2094)	Branch Premises	5,246	15	589	04/12/1995
71.	Bangunan HLA 14/19 Leboh Bishop 10200 Penang	Freehold	Branch Premises	10,653	28	3,311	20/12/1982
72.	13-2B 2nd Floor Jalan Perdana 6/6 Pandan Perdana 55300 Kuala Lumpur	Leasehold - 99 Years (11/12/2088)	Apartment	468	6	60	2004
73.	Block B, PJ City Jalan 219 Seksyen 51A 46100 Petaling Jaya Selangor	Leasehold - 99 Years (12/12/2107)	Office Premises	202,194	2	73,553	29/04/2008
74.	51-53, Persiaran Greenhill 30450 Ipoh, Perak	Freehold & leasehold -999 years	Branch premises	4,793	16	1,974	31/12/1993
75.	Unit 1-10, 8th Floor Island Place Tower No. 510 King's Road Hong Kong	Leasehold	Office	20,000	15	49,257	22/02/2010

Other Information
(continued)

5. IMPOSITION OF SANCTIONS/PENALTIES

Bursa Malaysia Securities Berhad had on 29 June 2010 issued a private reprimand to Hong Leong Investment Bank Berhad ("HLIB") for failure to comply with two provisions of the Member Company Information Technology Security Code ("MCITS Code").

The Board of Directors and Management of HLIB have taken serious note of this non-compliance and have taken immediate remedial action to comply with the provisions of the MCITS Code and to ensure such non-compliance do not recur.

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 Forty-first Annual General Meeting of the Company to be held at the Theatrette, Level 1, Wisma Hong Leong, 18 Jalan Perak, 50450 Kuala Lumpur on Tuesday, 26 October 2010 at 11.45 a.m. and at any adjournment thereof.

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

RESOLUTIONS		FOR	AGAINST
1.	To approve the payment of Directors' fees		
2.	To re-elect Mr Choong Yee How as a Director		
3.	To re-elect Ms Yvonne Chia as a Director		
4	To re-elect Ms Lim Tau Kien as a Director		
5.	To re-elect Ms Leong Bee Lian as a Director		
6.	To re-appoint YBhg General Tan Sri (Dr) Mohamed Hashim bin Mohd Ali (Rtd) as a Director pursuant to Section 129 of the Companies Act, 1965		
7.	To re-appoint YBhg Tan Sri Dato' Seri Khalid Ahmad bin Sulaiman as a Director pursuant to Section 129 of the Companies Act, 1965		
8.	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorise the Directors to fix their remuneration		
	Special Business		
9.	To approve the ordinary resolution on authority to Directors to issue shares		
10.	To approve the ordinary resolution on 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		
11.	To approve the ordinary resolution on the Proposed Shareholders' Mandate on recurrent related party transactions of a revenue or trading nature with Tower Real Estate Investment Trust		

Dated this ________________ day of ____________ 2010

______________________ Number of shares held

______________________ Signature of Member

Notes:-

1. If you wish to appoint other person(s) to be your proxy, insert the name(s) and address(es) of the person(s) desired in the space so provided.
2. If there is no indication as to how you wish your vote(s) to be cast, the proxy will vote or abstain from voting at his/her discretion.
3. A proxy need not be a member of the Company and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
4. A member shall not be entitled to appoint more than two proxies to attend and vote at the same meeting. Where two proxies are appointed, the proportions of shareholdings to be represented by each proxy must be specified in order for the appointments to be valid (please refer to note 7 below). Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
5. In the case where a member is a corporation, this Form of Proxy must be executed under its Common Seal or under the hand of its Attorney.
6. All Forms of Proxy must be duly executed and deposited at the Registered Office of the Company at Level 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.
7. In the event two (2) proxies are appointed, please fill in the ensuing section:

Name of Proxies	% of shareholdings to be represented